

Meeting Date: 6/11/2013

Report Type: Staff/Discussion

Report ID: 2013-00308

Title: Issuance and Sale of 2013 Wastewater Revenue Bonds

Location: Citywide

Issue: Issuance of revenue bonds is needed to improve and rehabilitate the City's aging wastewater system and maintain compliance with legal requirements. Under the City's Enterprise Revenue Bond Law, the City Council must approve the issuance of revenue bonds by adopting an authorizing resolution (City Code § 3.152.050).

Recommendation: 1) Pass a Resolution a) authorizing the issuance and sale of City of Sacramento Wastewater Revenue Bonds, Series 2013, to finance the acquisition, construction, and installation of certain wastewater-related capital improvement projects, with the aggregate principal amount not to exceed \$40 million; b) approving the official statement relating to the bonds; and c) authorizing the City Treasurer or his designee to approve, execute, and deliver related financing documents on the City's behalf, including a Bond Purchase Agreement; and 2) pass a Resolution approving the revenue and expenditure budgets for the bonds.

Contact: Russell T. Fehr, City Treasurer, (916) 808-5832; Janelle Gray, Debt Manager, (916) 808-8296; Brian Wong, Senior Debt Analyst, (916) 808-5811, Office of the City Treasurer

Presenter: Russell T. Fehr, City Treasurer, (916) 808-5832, Office of the City Treasurer

Department: City Treasurer

Division: City Treasurer

Dept ID: 05001011

Attachments:

- 1-Description/Analysis
- 02-Background
- 03-Resolution Authorizing the Issuance of Bonds
- 04-Resolution Approving the Revenue and Expenditure Budgets
- 05-EXHIBIT A - Capital Improvement Projects
- 06-EXHIBIT B - Indenture
- 07-EXHIBIT C - First Supplemental Indenture
- 08-EXHIBIT D - Bond Purchase Agreement
- 09-EXHIBIT E - Preliminary Official Statement
- 10-EXHIBIT F - Continuing Disclosure Certificate
- 11-EXHIBIT G - Termination and Consent Agreement
- 12-EXHIBIT H - Powerpoint Presentation

City Attorney Review

Not Approved as to Form
Joseph Cerullo
6/5/2013 11:52:00 AM

City Treasurer Review

Reviewed for Impact on Cash and Debt
Russell Fehr
3/26/2013 4:06:24 PM

Approvals/Acknowledgements

Department Director or Designee: Russell Fehr - 5/31/2013 11:25:18 AM

Description/Analysis

Issue: On March 27, 2012, the City Council approved rate increases for wastewater and water services. The increases in wastewater rates—16%, 15%, and 14% for FY2013, FY2014, and FY2015 respectively—will provide the revenue needed (1) to improve and rehabilitate the City’s aging wastewater-system infrastructure, (2) to help the City comply with requirements of the consent decree with the California Sportfishing Protection Alliance (“**CSPA**”), and (3) to meet permit and environmental-compliance requirements related to the Combined Sewer System. To implement these goals, the Department of Utilities (“**DOU**”) has developed a capital-improvement program (“**CIP**”) that includes three major infrastructure projects in the first five years: rehabilitation and replacement of the Combined Sewer System; rehabilitation and replacement of the Separated Sewer System; and rehabilitation of, and capital improvements to, wastewater sumps and large facilities (e.g., the Combined Wastewater Treatment Plant and Pioneer Reservoir). The CIP provides that the City will finance these major improvements primarily by issuing bonds backed by revenues from the wastewater system (the “**Series 2013 Bonds**”).

Policy Considerations: The Series 2013 Bonds will be secured by a pledge of the wastewater-system net revenues, and the bond indenture will require the City to comply with specified debt-service-coverage requirements.

Environmental Considerations:

California Environmental Quality Act (“CEQA”): On March 5, 2013, the City Council considered and adopted a mitigated negative declaration for the major component of the Series 2013 Project, the Oak Park Combined Sewer System Regional Storage Project. (See Cal. Code Regs., tit. 14, § 15074(a).) The remaining components fall within one or more of the classes of projects the Secretary for the California Natural Resources Agency has declared to be categorically exempt from CEQA. (See *id.* at §§ 15061(b)(2), 15300, 15301, 15302, and 15303.)

Sustainability: Not Applicable.

Commission/Committee Action: None.

Rationale for Recommendation: Issuing the Series 2013 Bonds to finance the wastewater-related capital improvements is necessary to achieve the City’s objectives of (1) complying with the CSPA consent decree, (2) maintaining the integrity of the wastewater system and its continued compliance with environmental laws, and (3) improving the replacement cycle of key wastewater-system assets.

Financial Considerations: DOU has identified a CIP need over the next three years of approximately \$39.5 million for the wastewater system, of which approximately \$30 million in projects will be funded from proceeds of the Series 2013 Bonds. Debt service on the bonds is expected to be approximately \$1.4 million in FY2015 and approximately \$2 million each year from FY2016 through FY2043.

After issuing the Series 2013 Bonds, the City will be required to comply with the following reserve and coverage requirements:

- *Bond-reserve requirement.* The City must maintain a bond-reserve fund equal to 50% of the maximum annual debt service for (a) the Series 2013 Bonds and (b) any other wastewater-revenue bonds the City may later issue under the master indenture used for the Series 2013

Bonds so long as future wastewater-revenue bonds are deemed to be “Participating Bonds” and participate in a common bond reserve. The bond-reserve fund will initially be funded with bond proceeds.

- *Debt-service-coverage requirement.* During each fiscal year, the net revenues from the wastewater system must equal or exceed (a) 120% of debt service for the year on outstanding Series 2013 Bonds and outstanding parity obligations, i.e., obligations equally secured by the revenues; (b) 110% of debt service for the year on outstanding Series 2013 Bonds, outstanding parity obligations, and outstanding subordinate obligations secured by the revenues; and (c) 100% of debt service for the year on all obligations paid from the revenues, i.e., the Series 2013 Bonds, parity obligations, subordinate obligations, and unsecured obligations (none at this time).

Additionally, the City will have the option to establish a rate-stabilization fund. It is anticipated that the City will maintain the rate-stabilization fund in an amount equal to 25% of total annual debt service, i.e., debt service on the Series 2013 Bonds, parity obligations, subordinate obligations, and unsecured obligations. However, the City is not required to maintain the rate-stabilization fund balance at any particular level. The rate-stabilization fund will help the City comply with the debt-service-coverage requirements during cycles of reduced rate revenues; it also will help lessen the immediate impact of rate adjustments. DOU has elected to establish a rate-stabilization fund and, on the closing date of the Wastewater Bond financing, will transfer \$2.5 million from the beginning unrestricted Wastewater Fund Balance.

Importantly, debt-service payments for the Series 2013 Bonds will be the exclusive responsibility of the City’s Wastewater Enterprise Fund. The City’s General Fund will have no obligation for the debt-service payments and will not be pledged as security for the bonds.

Emerging Small Business Development (ESBD): Not applicable.

Background

Overview

In December 2012, the City Treasurer’s Office, the Department of Utilities (“**DOU**”), the City Attorney’s Office, and the Department of Finance (collectively, “**City Staff**”) and external members of the financing team—the underwriter, Bank of America Merrill Lynch (“**BAML**”); the law firm that is acting as bond counsel, Orrick, Herrington, & Sutcliffe LLP (“**Bond Counsel**”); the law firm that is acting as disclosure counsel, Stradling Yocca Carlson Rauth, P.C.; and a feasibility consultant, Carollo Engineers, Inc.—began working toward the goal of issuing wastewater-revenue bonds to finance capital-improvement projects that are to be delivered between FY2013 and FY2015. These bonds will officially be designated as the City of Sacramento Wastewater Revenue Bonds, Series 2013 (the “**Series 2013 Bonds**”).

Over the past five months, City Staff have been involved in numerous document-review meetings and conference calls to complete a number of necessary tasks, including but not limited to drafting the financing documents, finalizing the bond-sizing assumptions, and preparing the historical and projected operating results of the Wastewater Fund. It is worth noting that one major undertaking related to the proposed issuance of the Series 2013 Bonds was the amending of the five outstanding State Revolving Fund Loan Contracts (“**SRF Loan Contracts**”) between the City and the State Water Resources Control Board (“**SWRCB**”). City Staff and Bond Counsel were able to work successfully with SWRCB staff to draft an agreement confirming that the Series 2013 Bonds and the SRF Loans are parity obligations, i.e., obligations that are secured equally by a pledge of wastewater revenues. Without this agreement, the credit rating and pricing for the Series 2013 Bonds could have been negatively affected, as the market would have considered the pledge that secures the Series 2013 Bonds to be “subordinate” to the pledge that secures the SRF Loan Contracts.

Capital Improvement Projects

The single largest project to be financed with the Series 2013 Bonds is the rehabilitation and replacement of the Oak Park Regional Storage Facility (the “**Oak Park Project**”), with an estimated cost of approximately \$12 million. Other capital projects to be financed with the Series 2013 Bonds are components of the Combined Sewer System, the Separated Sewer System, Wastewater Sumps, and miscellaneous smaller projects.

DOU’s total CIP need for the wastewater system is approximately \$39.5 million between FY2013 and FY2015, of which approximately \$30 million will come from proceeds of the Series 2013 Bonds. The remaining \$9.5 million will come from cash on-hand (i.e., pay-go financing, grant financing, and available development-impact fees), which is consistent with DOU’s longer-term objective of meeting its capital-improvement needs with cash and Proposition 1E funding. The breakdown of the CIP need between FY2013 and FY2015 is as follows:

FY2013-15 Wastewater CIP Need

Bond Financed Components

PROJECT DESCRIPTION	PROJECT AMOUNT <i>(in millions)</i>	PROPORTION (%)
Combined System Permit Compliance ¹	12.0	40.0
Separated System Permit / Litigation Compliance ²	8.5	28.3
Sump Station / Treatment Facility Rehabilitation ³	3.7	12.3
CIP O&M Support / Planning / Capital Reserves ⁴	3.2	10.7
Priority Combined System Rehabilitation ⁵	2.6	8.7
TOTAL	\$30.0	100.0

¹ Oak Park Regional Storage Facility project.

² Includes wastewater collection pipe replacement, lining, and bursting projects.

³ Includes various rehabilitation and regulatory improvement projects associated with the various sumps and the Combined Wastewater Treatment Plant.

⁴ Includes CIP reserve, IT Improvement Projects, various wastewater-system planning elements, and regulatory improvements.

⁵ Includes various rehabilitation and improvement projects.

Debt Modeling and Financing Assumptions

Beginning in 2012, staff in the City Treasurer's Office worked with BAML to run numerous debt-modeling scenarios designed to meet the constraints of the Wastewater Fund's cash flow while providing sufficient bond proceeds to finance capital-improvement deliverables. Below are some of the assumptions the Treasurer's Office took into consideration:

- 29-year maturity structure
- Necessity required a limited amount and duration of capitalized interest
- Fixed-rate interest
- Level annual debt service (roughly equal payments each year)
- Minimum coverage ratio of 1.20 x debt service and 120 days cash-on-hand (as a guiding principle)

Based on interest rates as of May 24, 2013, and with a buffer built into to account for interest-rate sensitivity, staff determined that \$30 million in bond proceeds would require ongoing debt-service payments of approximately \$1.4 million in FY2015 and \$2 million each year from FY2016 through FY2043.

After issuing the Series 2013 bonds, the City will be required to comply with the following reserve and coverage requirements:

- *Bond-reserve requirement.* The City must maintain a bond-reserve fund equal to 50% of the maximum annual debt service for (a) the Series 2013 Bonds and (b) any other wastewater-revenue bonds the City may later issue under the master indenture used for the Series 2013 Bonds so long as future wastewater-revenue bonds are deemed to be “Participating Bonds” and participate in a common bond reserve. The bond-reserve fund will initially be funded with bond proceeds.
- *Debt-service-coverage requirement.* During each fiscal year, the net revenues from the wastewater system must equal or exceed (a) 120% of debt service for the year on outstanding Series 2013 Bonds and outstanding parity obligations, i.e., obligations equally secured by the revenues; (b) 110% of debt service for the year on outstanding Series 2013 Bonds, outstanding parity obligations, and outstanding subordinate obligations secured by the revenues; and (c) 100% of debt service for the year on all obligations paid from the revenues.

Additionally, the City will have the option to establish a rate-stabilization fund. It is anticipated that the City will maintain the rate-stabilization fund in an amount equal to 25% of total annual debt service, i.e., debt service on the Series 2013 Bonds, parity obligations, subordinate obligations, and unsecured obligations. However, the City is not required to maintain the rate-stabilization fund balance at any particular level. The rate-stabilization fund will help the City comply with the debt-service-coverage requirements during cycles of reduced rate revenues; it also will help lessen the immediate impact of rate adjustments. DOU has elected to establish a rate-stabilization fund and, on the closing date of the Wastewater Bond financing, will transfer \$2.5 million from the beginning unrestricted Wastewater Fund Balance.

The various scenarios that were run assume that the Wastewater Fund, and only the Wastewater Fund, will be obligated to pay debt service on the Series 2013 Bonds. Staff performed various sensitivity analyses to confirm that this is the case, and those analyses demonstrate that the Wastewater Fund is able to pay annual debt service on the Series 2013 Bonds. It is anticipated, however, that changes to revenues and to operations and maintenance costs over the 29-year term of the Series 2013 Bonds could cause the City to violate the coverage requirements summarized above. If so, then the City Council would need to consider revenue and expenditure adjustments as necessary to comply with those requirements.

RESOLUTION NO. 2013-XXXX

Adopted by the Sacramento City Council

June 11, 2013

AUTHORIZING THE ISSUANCE AND SALE OF CITY OF SACRAMENTO WASTEWATER REVENUE BONDS, SERIES 2013, TO FINANCE THE COSTS OF CERTAIN IMPROVEMENTS TO THE CITY'S WASTEWATER SYSTEM; APPROVING THE OFFICIAL STATEMENT RELATED TO THE BONDS; APPROVING THE FORMS OF RELATED FINANCING DOCUMENTS; AUTHORIZING THE CITY TREASURER OR HIS DESIGNEE TO APPROVE, EXECUTE, AND DELIVER THE RELATED FINANCING DOCUMENTS; AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION WITH THE BONDS AND THE FINANCING

BACKGROUND:

- A.** The City of Sacramento is duly organized and existing under the Sacramento City Charter (the "**Charter**") and the California Constitution.
- B.** Under sections 3, 5, and 7 of article XI of the California Constitution and section 10 of the Charter, the City is authorized to make and enforce all laws and regulations concerning municipal affairs and certain other matters.
- C.** Under section 119 of the Charter, the City is specifically authorized to issue revenue bonds for any lawful purpose and to adopt a procedural ordinance prescribing the terms and conditions of issuance of revenue bonds.
- D.** Acting in accordance with its authority, the City Council has enacted the Enterprise Revenue Bond Law, codified as chapter 3.152 of the Sacramento City Code (the "**Law**"), to authorize and establish the procedures for the City's issuance of revenue bonds for the purpose of financing and refinancing the City's enterprises.
- E.** The City now owns and operates facilities for the provision of wastewater service, all of which are included in and compose the City's wastewater-enterprise system (the "**Wastewater System**").
- F.** The City is empowered by the Law to issue its bonds for the purpose of financing certain improvements to the Wastewater System.

- G.** The City Department of Utilities has identified a three-year (FY2013-2015) Wastewater CIP need of approximately \$39.5 million, of which approximately \$30 million in projects is expected to be funded from the proceeds of the issuance of wastewater-revenue bonds.
- H.** In accordance with the Law, the City has determined to issue the City of Sacramento Wastewater Revenue Bonds, Series 2013 (the "**Series 2013 Bonds**"), in the aggregate principal amount not to exceed \$40 million, in order to finance the costs of certain improvements to the Wastewater System.
- I.** In furtherance of the City's issuance of the Series 2013 Bonds, forms of the following documents have been filed with the City Clerk for consideration and approval by the City Council:
- *An Indenture* (the "**Indenture**") under which (1) the City will issue "Bonds" (as defined in the Indenture), including the Series 2013 Bonds; (2) the City will incur other obligations secured by the net revenues of the Wastewater System; and (3) the Trust Estate (as defined in the Indenture) will be administered to pay the principal and purchase price of and interest and premium, if any, on the Bonds and any payments with respect to such other obligations.
 - *A First Supplemental Indenture* (the "**Supplemental Indenture**") providing for the issuance of the Series 2013 Bonds under the Indenture and specifying certain terms of the Series 2013 Bonds.
 - *A Bond Purchase Agreement* (the "**Bond Purchase Agreement**") under which, among other things, the City agrees to sell, and the underwriter of the Series 2013 Bonds named in the Bond Purchase Agreement (the "**Underwriter**") agrees to purchase, the Series 2013 Bonds.
 - A preliminary form of an *Official Statement* (the "**Official Statement**") describing the Series 2013 Bonds and other matters relating to them.
 - *A Continuing Disclosure Certificate* (the "**Continuing Disclosure Certificate**") under which the City agrees to provide certain ongoing disclosure with respect to the Series 2013 Bonds.
 - *A Termination and Consent Agreement* (the "**Termination and Consent Agreement**") under which five existing loans secured

by revenues of the Wastewater System will be secured through the Indenture on parity with the Series 2013 Bonds.

- J.** The Series 2013 Bonds will be limited obligations of the City secured by a pledge of, and payable solely from, the net revenues of the Wastewater System and the other collateral pledged under the Indenture, subject to the application of the net revenues of the Wastewater System and the other collateral for the purposes set forth in the Indenture and on the terms and conditions set forth in the Indenture. The General Fund of the City is not liable for, and neither the credit nor the taxing power of the City is pledged for, the payment of the Series 2013 Bonds.
- K.** All acts, conditions, and things required by the Law, the Charter, and the Constitution and laws of the State of California to exist, to have happened, and to have been performed before and in connection with the issuance of the Series 2013 Bonds and consummation of the financing hereby authorized do exist, have happened, and have been performed in regular and due time, form, and manner as required by law, and the City is now duly authorized and empowered, in accordance with every requirement of law, to authorize the issuance of the Series 2013 Bonds and to authorize the execution and delivery of the Indenture, the Supplemental Indenture, the Bond Purchase Agreement, the Official Statement, the Continuing Disclosure Certificate, and the Termination and Consent Agreement for the purposes, in the manner, and upon the terms provided.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1.** The City Council finds that the statements in paragraphs A through K of the Background are true.
- Section 2.** The City's issuance of City of Sacramento Wastewater Revenue Bonds, Series 2013, in an aggregate principal amount not to exceed \$40 million and in accordance with the Indenture and the Supplemental Indenture, as finally executed and delivered, is hereby authorized and approved.
- Section 3.** The proposed forms of Indenture and Supplemental Indenture on file with the City Clerk, and their terms and conditions, are hereby approved. The structure, date, maturity date or dates (the final maturity to be not later than September 1, 2043), fixed interest rates, interest-payment dates, forms, registration privileges, place or places of payment, terms of redemption,

number, and other terms of the Series 2013 Bonds will be as provided in the Indenture and the Supplemental Indenture as finally executed and delivered.

(a) The City Treasurer or his designee (the "**Authorized Representative**") is hereby authorized and directed to execute and deliver the Indenture and the Supplemental Indenture on the City's behalf, in substantially the forms on file with the City Clerk and with such changes as the Authorized Representative requires or approves with the concurrence of the City Attorney or his designee (the "**City Attorney**"), such approval to be conclusively evidenced by the execution and delivery thereof.

(b) The Series 2013 Bonds are to be executed by the manual or facsimile signature of the Authorized Representative and must be in the form set forth in, and must otherwise be in accordance with, the Supplemental Indenture. When the Series 2013 Bonds are so executed, the Authorized Representative shall deliver them to the Trustee (as defined in the Indenture). The Trustee shall then authenticate the Series 2013 Bonds and deliver them to the Underwriter in accordance with written instructions the Authorized Representative signs on the City's behalf, which instructions the Authorized Representative is hereby authorized and directed to sign and deliver to the Trustee. The instructions are to provide for the delivery of the Series 2013 Bonds to the Underwriter in accordance with the Bond Purchase Agreement upon payment by the Underwriter of the purchase price for the Series 2013 Bonds.

Section 4. The proposed form of the Bond Purchase Agreement on file with the City Clerk is hereby approved. The Authorized Representative is hereby authorized and directed to do the following on the City's behalf:

(a) to sell the Series 2013 Bonds to the Underwriter as required by the Bond Purchase Agreement, with a true interest cost not to exceed 6.00% and with the Underwriter's compensation not to exceed 1.00% of the principal amount of the Series 2013 Bonds; and

(b) to execute and deliver the Bond Purchase Agreement, in substantially the form on file with the City Clerk, with such changes as the Authorized Representative requires or approves with the City Attorney's concurrence, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. The proposed form of Official Statement on file with the City Clerk is hereby approved. The Authorized Representative is hereby authorized and directed to execute and deliver to the Underwriter, on the City's behalf, a certificate deeming the preliminary Official Statement, in substantially the form on file with the City Clerk and with such changes as the Authorized Representative approves in the interest of the City with the City Attorney's concurrence, to be final within the meaning of Securities Exchange Commission Rule 15c2-12. The Underwriter is hereby authorized to distribute the Official Statement in preliminary and final form. The Authorized Representative is hereby authorized and directed to execute and deliver the final form of the Official Statement on the City's behalf, in substantially the form on file with the City Clerk and with such changes as the Authorized Representative requires or approves with the City Attorney's concurrence, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. The proposed form of the Continuing Disclosure Certificate on file with the City Clerk is hereby approved. The Authorized Representative is hereby authorized and directed to execute and deliver the Continuing Disclosure Certificate on the City's behalf, in substantially the form on file with the City Clerk and with such changes as the Authorized Representative requires or approves with the City Attorney's concurrence, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. The proposed form of the Termination and Consent Agreement on file with the City Clerk is hereby approved. The Authorized Representative is hereby authorized and directed to execute and deliver the Termination and Consent Agreement on the City's behalf, in substantially the form on file with the City Clerk and with such changes as the Authorized Representative requires or approves with the City Attorney's concurrence, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 8. All approvals, consents, directions, notices, orders, requests, and other similar actions permitted or required by any of the documents authorized by this resolution, whether given or taken before or after the issuance of the Series 2013 Bonds (including, without limitation, any amendment of any of the documents authorized by this resolution or other agreement related to the Series 2013 Bonds; any investment of proceeds of the Series 2013 Bonds; the addition, substitution, or replacement of

underwriters; any agreements with paying agents; and the removal or replacement of the Trustee) may be given or taken by the Authorized Representative, without further authorization or direction by the City Council. The Authorized Representative is hereby authorized and directed to give any such approval, consent, direction, notice, order, or request and take such other actions and execute such documents that the Authorized Representative deems necessary or desirable, in his or her discretion, to further the purposes of this resolution.

Section 9. The Authorized Representative and each other appropriate officer of the City, each acting alone, are authorized and directed (a) to execute and deliver on the City's behalf any and all agreements, certificates, documents, and instruments, including, without limitation, signature certificates, no-litigation certificates, disclosure certificates, tax certificates, letters of representation relating to book-entry registration, certificates concerning the representations in the Bond Purchase Agreement, certificates concerning the contents of the Official Statement, and certificates and contracts for rebate compliance services; and (b) to do any and all things and take any and all actions that may be necessary or advisable, in their discretion, to effectuate the actions the City Council has approved in this resolution. The Authorized Representative may appoint in writing a designee to perform any of the actions that the Authorized Representative may take under this resolution.

Section 10. The Authorized Representative is hereby authorized to do any or all of the following if he or she determines that it will be advantageous to the City:

(a) to purchase municipal-bond insurance or other credit enhancement for some or all of the Series 2013 Bonds;

(b) to purchase one or more reserve-fund surety policies or other credit instruments for the benefit of any reserve fund established for the Series 2013 Bonds;

(c) to obtain a particular rating or ratings on all or a portion of the Series 2013 Bonds and take such other actions as may be necessary to obtain the rating or ratings;

(d) to negotiate the terms of a commitment for the municipal-bond insurance policy or other credit enhancement

and for the reserve-fund surety policies or other credit instruments; and

(e) to negotiate and approve, with the concurrence of the City Attorney, any covenants of the City or changes to the proposed forms of the Indenture, Supplemental Indenture, Bond Purchase Agreement, Official Statement, Continuing Disclosure Certificate, and Termination and Consent Agreement that may be necessary or appropriate to purchase a municipal-bond insurance policy or other credit enhancement, to purchase reserve-fund surety policies or other credit instruments, or to obtain a particular rating or ratings on all or a portion of the Series 2013 Bonds.

Section 11. All actions heretofore taken by the City Council, the Authorized Representative, or any other officers, agents, or employees of the City with respect to the issuance of the Series 2013 Bonds and the other transactions contemplated by this resolution and by the Official Statement are hereby ratified, confirmed, and approved.

Section 12. This resolution takes effect when adopted.

RESOLUTION NO. 2013-XXXX

Adopted by the Sacramento City Council

June 11, 2013

APPROVING THE REVENUE AND EXPENDITURE BUDGETS FOR THE CITY OF SACRAMENTO WASTEWATER REVENUE BONDS, SERIES 2013

BACKGROUND:

- A.** On March 27, 2012, the Department of Utilities presented to the City Council a long-range capital-and-financial plan that includes a 30-year Wastewater Infrastructure Investment Program (the "**Program**") and three-year rate plan that enables the City to begin implementation of the Program.
- B.** To provide funds for the planning, acquisition, construction, and rehabilitation of wastewater-system assets in accordance with the Program, the City Council will adopt a separate resolution that authorizes the issuance of bonds designated as City of Sacramento Wastewater Revenue Bonds, Series 2013 (the "**Series 2013 Bonds**").
- C.** To implement the Program and properly account for proceeds from the Series 2013 Bonds, it is necessary to approve various financial and accounting authorizations and transactions.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1.** The City Treasurer and the City Manager, and their respective designees, are hereby authorized to do the following after final pricing and sale of the Series 2013 Bonds: approve all financial transactions, budgets, and appropriations needed to carry out the financing of the Program in accordance with the law and City policy.
- Section 2.** City staff is authorized to establish and implement the financial transactions needed to record, track, and report the receipts, expenditures, and deposits of related transactions, including but not limited to (a) the establishment of funds and investment portfolios and (b) the simultaneous funding of a special account from current Wastewater Fund assets, to be known as the "Rate

Stabilization Fund," in an initial amount of not more than \$2,500,000.

Section 3. The Fiscal Year 2012-13 Capital Improvement Program is hereby amended to reflect the appropriations outlined on Exhibit A to this resolution, which will be supported by the proceeds from the sale of the Series 2013 Bonds.

Section 4. The City Treasurer's Office, the City Attorney's Office, the Finance Department, and the Department of Utilities are authorized to be reimbursed from proceeds of the Series 2013 Bonds for reasonable costs incurred, including staff time, in connection with the issuance and sale of the Series 2013 Bonds. Cost-of-issuance expenditures in connection with the Series 2013 Bonds may not be paid unless the City Treasurer's Office has approved the expenditures in writing.

FY 2013 CAPITAL IMPROVEMENT PROJECTS

PROJECT NUMBER	PROJECT NAME	2013 Wastewater Revenue Bond Budget
X14000500	BASE CIP CONTINGENCY-WASTEWATER	1,431,649
X14120400	ON-CALL SEWER CLEANING & CCTV	107,123
X14110400	SEWER MANHOLE REHAB	108,997
Z14003600	INFORMATION TECHNOLOGY PROJECT	658,678
X14130200	WASTEWATER MASTER PLANNING PROGRAM	107,123
X14010000	COMBINED SEWER SYSTEM CAPITAL	14,787,441
X14120200	FLOW MONITORING/HYDROLOGY	107,123
X14130400	WASTEWATER FLOW METER	326,991
X14130500	WASTEWATER CONDITION ASSESSMENT	107,123
X14130600	WASTEWATER COLLECTION PIPE REPLACEMENT	2,948,046
X14130700	WASTEWATER COLLECTION PIPE LINING	1,601,506
X14130800	WASTEWATER COLLECTION PIPE BURSTING	1,483,432
X14002300	SOUTH POCKET SEWER REHAB PROGRAM	1,500,000
X14003900	SUMP 85 INFLUENT SEWER REHAB	1,000,000
X14130900	WASTEWATER SUMP REHAB/REPLACEMENT	476,991
X14131000	SUMP 1/1A REHABILITATION/REPAIR	31,799
X14131100	SUMP 2/2A REHABILITATION/REPAIR	317,994
X14131200	COMBINED WASTEWATER TREATMENT PLANT REHAB/REPAIR	794,986
X14131300	PIONEER RESERVIOR REHABILITATION/REPAIR	217,994
X14131400	MISCELLANEOUS FACILITY REPAIR	54,499
W14004200	INVENTORY & O&M MANAGEMENT CENTER	250,000
X14131500	FACILITY ELECTRICAL REHAB	1,325,889
X14131600	WASTEWATER PLANT REGULATORY IMPROVEMENTS	254,615
		\$30,000,000

INDENTURE

between

CITY OF SACRAMENTO

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of April 1, 2013

Relating To

CITY OF SACRAMENTO
WASTEWATER REVENUE BONDS OR NOTES

INDENTURE

This INDENTURE, dated as of April 1, 2013 (this “Indenture,” as more fully defined in Section 1.02), between the CITY OF SACRAMENTO, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the “City,” as more fully defined in Section 1.02), and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the “Trustee,” as more fully defined in Section 1.02);

WITNESSETH:

WHEREAS, the City is duly organized and existing under the Sacramento City Charter (the “Charter”);

WHEREAS, under Sections 3, 5, and 7 of Article XI of the California Constitution and Section 10 of the Charter, the City is authorized to make and enforce all laws and regulations concerning municipal affairs and certain other matters;

WHEREAS, under Section 119 of the Charter, the City is specifically authorized to issue revenue bonds for any lawful purpose and to adopt a procedural ordinance prescribing the terms and conditions of issuance of such revenue bonds;

WHEREAS, acting in accordance with this authority, the City Council of the City has enacted the Enterprise Revenue Bond Law, being Chapter 3.152 of the Sacramento City Code, to authorize, and to establish the procedures for, the City’s issuance of revenue bonds for the purpose of financing and refinancing the City’s enterprises;

WHEREAS, the City now owns and operates facilities for the provision of wastewater service, all of which are included in and compose the Wastewater System (the “Wastewater System,” as more fully defined in Section 1.02), and the City has determined that it is necessary that funds be raised from time to time by the City for the purpose of financing certain improvements to the Wastewater System;

WHEREAS, the City has determined to enter into this Indenture (1) to provide for the issuance, authentication, and delivery of the Bonds (as defined in Section 1.02), which are secured by and payable from the Trust Estate (as defined in Section 5.01(A)(2)); (2) to establish and declare the terms and conditions upon which the Bonds and other obligations secured by and payable from the Trust Estate shall be issued and secured and (3) to secure the payment of the principal and purchase price of, and the premium (if any), and interest on:

(a) the Bonds and obligations secured by the Trust Estate on a parity with the Bonds (the “Parity Obligations,” as more fully defined in Section 1.02), and

(b) the obligations secured by the Trust Estate on a basis subordinate to the Bonds and the Parity Obligations (the “Subordinate Obligations,” as more fully defined in Section 1.02), and

(c) the obligations secured by the Trust Estate on a basis subordinate to the Bonds, the Parity Obligations and the Subordinate Obligations (the “Fee and Expense Obligations,” as more fully defined in Section 1.02),

in each case subject to the provision of this Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth in this Indenture;

WHEREAS, the execution and delivery of this Indenture has in all respects been duly and validly authorized by a resolution duly passed and approved by the City Council of the City; and

WHEREAS, the City has determined that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and the entering into of this Indenture 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 Indenture;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order (1) to secure the payment of the principal and purchase price of, and the premium (if any) and the interest on, all Bonds at any time issued, authenticated, and delivered hereunder; (2) to secure the payment of Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations in accordance with terms hereof; and (3) to provide the terms and conditions under which all property, rights and interests hereby assigned and pledged are to be dealt with and disposed of, and to secure performance and observance of the terms, conditions, stipulations, covenants, agreements, trusts, uses, and purposes hereinafter expressed, and in consideration of the premises and of the material covenants herein contained and of the purchase and acceptance of the Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations by the owners or holders thereof, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the City does hereby agree and covenant with the Trustee for the benefit of the owners, from time to time, of the Bonds, or any part thereof, and for the benefit of the holders of Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations in accordance with terms hereof, as follows:

ARTICLE I

EQUALITY OF SECURITY; DEFINITIONS; CONTENT OF CERTIFICATES

SECTION 1.01. Equality of Security. In consideration of the acceptance of the Bonds by the owners thereof from time to time, this Indenture shall be deemed to be and shall constitute a contract between the City, the Trustee and the owners from time to time of the Bonds. The covenants and agreements herein set forth to be performed by or on behalf of the City or the Trustee 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 reasons of the Series, time of issue, sale, or negotiation thereof or for any cause whatsoever, except as expressly provided therein or herein. Nothing herein shall prevent additional security being provided for the benefit of a particular Series of Bonds under any supplement to this Indenture.

SECTION 1.02. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Indenture and of any Supplemental Indenture and of any certificate, opinion, or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

“Accreted Value” means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon, compounded at the approximate interest rate thereon on each date specified therein. The Accreted Value at any date shall be the amounts set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date. For purposes of this Indenture, the term “principal of” shall also include Accreted Value, if appropriate.

“Accreted Value Table” means the table denominated as such which appears as an exhibit to, and to which reference is made in, a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

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

“Alternate Liquidity Facility” means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement, or similar liquidity facility, which secures, enhances, or guarantees the payment of purchase price of such Series of Bonds under certain conditions specified therein, issued by a commercial bank, insurance company, pension fund, or other institution, and delivered or made available to the Trustee, as a replacement or substitute for any Liquidity Facility then in effect.

“Annual Debt Service” means, with respect to any Obligations and for any Fiscal Year, the aggregate amount of Debt Service on such Obligations becoming due and payable during such Fiscal Year.

“Authorized Representative” means the City Manager of the City, the City Treasurer of the City, or such other person as may be designated to act on behalf of the City by resolution of the City Council of the City or by a written certificate delivered to the Trustee signed on behalf of the City by an Authorized Representative.

“Average Annual Debt Service” means with respect to any Obligations and as of any date of calculation, the quotient obtained by dividing (1) the sum of the Annual Debt Service on such Obligations for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or, if appropriate, the first full Fiscal Year following the issuance or incurrence of such Obligations) and terminating in the last Fiscal Year in which any Debt Service on such Obligations is due by (2) the number of such Fiscal Years.

“Balloon Indebtedness” means, with respect to any Obligation 25% or more of the principal or other face amount of which matures or becomes due on the same date or within a 12-month period (with Mandatory Sinking Account Payments deemed to be payments of matured principal), that portion of such Obligation which matures or becomes due on such date or within such 12-month period.

“Beneficial Owner” means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bond, including any Person holding Bonds through nominees or depositories, including the Securities Depository.

“Bond Obligation” means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof.

“Bond Reserve Fund” means the fund by that name established pursuant to Section 5.05(A).

“Bond Reserve Requirement” means: (1) with respect to the Bond Reserve Fund, as of any date of calculation, an amount equal to 50% of the Maximum Annual Debt Service for the Participating Bonds, as computed and determined by the City and specified in writing to the Trustee; provided, that with respect to the issuance of additional Participating Bonds if the Bond Reserve Fund would have to be increased by an amount greater than 10% of the stated principal amount of such additional Participating Bonds (or, if the issue has more than a de minimis amount of original issue discount or premium, of the issue price of such Bonds) then the Bond Reserve Requirement shall be such lesser amount as is determined by a deposit of such 10%; and (2) with respect to any Bond Series Reserve Fund, the amount specified as such in the Supplemental Indenture establishing such Bond Series Reserve Fund.

“Bond Series Reserve Fund” means any fund by that name established with respect to one or more Series of Bonds other than Participating Bonds pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Bondholder” or “Holder” or “owner”, whenever used herein with respect to a Bond, means the person in whose name such Bond is registered.

“Bond” or “Bonds” means one or more of the City of Sacramento Wastewater Revenue Bonds or Notes authorized by, and at any time Outstanding pursuant to, this Indenture.

“Business Day” means, except as is otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds is issued, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York or the jurisdiction in which the Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed; (2) for purposes of payments and other actions relating to Bonds secured or enhanced by a Credit Enhancement or supported by a Liquidity Facility, a day upon which commercial banks in the city in which is located the office of the issuing institution at which demands for payment under the Credit Enhancement or Liquidity Facility, as applicable, are to be presented are authorized or obligated by law or executive order to be closed; (3) a day

on which the New York Stock Exchange is closed; or (4) a day on which the payment system of the Federal Reserve System is not operational.

“Capital Appreciation Bonds” means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and on which interest is compounded and paid at maturity or on prior redemption.

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by an Authorized Representative. Any such instrument and supporting opinions or representations may, but need not, be combined in a single instrument with any other instrument, opinion, or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.03, each such instrument shall include the statements provided for in Section 1.03.

“City” means the City of Sacramento, a municipal corporation and chartered city, duly organized and existing under and by virtue of the Constitution and laws of the State of California, and any successor thereto.

“Code” means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, or any successor to the Internal Revenue Code of 1986. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

“Continuing Disclosure Certificate” means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the continuing disclosure certificate or continuing disclosure agreement delivered by the City at the time of issuance and delivery of such Series of Bonds, as the same may be supplemented, modified, or amended in accordance with its terms.

“Corporate Trust Office” or “corporate trust office” means the corporate trust office of the Trustee at U.S. Bank National Association, One California Street, Suite 1000, San Francisco, California 94111, Attention: Global Corporate Trust Services, or such other or additional offices as may be designated by the Trustee from time to time; provided, that for registration, transfer, exchange, surrender, and payment of the Bonds, Corporate Trust Office shall initially mean the corporate trust operations office of the Trustee in Saint Paul, Minnesota.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, issuance, sale and delivery of a Series of Bonds, including advertising and printing costs; costs of preparation and reproduction of documents; filing and recording fees; travel expenses and costs relating to rating agency meetings and other meetings concerning such Series of Bonds; initial fees, expenses, and charges of the Trustee; legal fees and charges; fees and disbursements of consultants and professionals; financial advisor fees and expenses; rating agency fees; fees and charges for preparation, execution, transportation, and safekeeping of Bonds; surety, insurance, credit enhancement, and liquidity costs; fees payable in connection with the execution or termination of an Interest Rate Swap Agreement in connection with the issuance of a Series of Bonds; and any other cost,

charge, or fee incurred in connection with the issuance of a Series of Bonds or any Parity Obligations delivered in connection with a Series of Bonds.

“Costs of Issuance Fund” means a fund by that name established pursuant to the provisions of a Supplemental Indenture to pay Costs of Issuance with respect to a Series of Bonds being issued pursuant to such Supplemental Indenture.

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

“Coverage Requirement” means, for any Fiscal Year, an amount of System Net Revenues equal, in each case, to at least (1) 120% of the Debt Service on all Outstanding Bonds and Parity Obligations for such Fiscal Year, (2) 110% of the Debt Service on all Outstanding Bonds, Parity Obligations, and Subordinate Obligations for such Fiscal Year, and (3) 100% of all obligations of the City payable from System Net Revenues in such Fiscal Year.

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

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

“Current Interest Bonds” means the Bonds of any Series that are designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and pay interest to the Holders thereof on a periodic basis prior to maturity.

“Debt Service,” when used with respect to any Obligations, means, as of any date of calculation and with respect to any Fiscal Year, the sum of (1) the interest falling due on such Obligations during such Fiscal Year, (2) the principal or Mandatory Sinking Account Payments required to be paid with respect to such Obligations during such Fiscal Year, and (3) any other regularly scheduled payments on such Obligations during such Fiscal Year to the extent not included in clauses (1) and (2) of this definition, all of which are to be computed on the assumption that no portion of such Obligations shall cease to be outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(A) Balloon Indebtedness may, at the option of the City, be treated as if it were to be amortized in substantially equal annual installments over a term of up to 30 years (which period shall be designated by the City), commencing in the year of incurrence by the City of such Balloon Indebtedness, and the interest rate used for such computation shall be assumed by the City to be equal to either (1) a fixed rate equal to the average Revenue Bond Index during the

calendar quarter preceding the calendar quarter in which the calculation is made, or, if that index is no longer published, an interest rate equal to 80% of the yield (as of the close on the Business Day immediately preceding the date of calculation) for outstanding United States Treasury bonds having a maturity of ten years or (2) such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the City;

(B) unless a different subsection of this definition applies for purposes of determining maturities or amortization, in determining the amount due in each Fiscal Year, payment shall be assumed to be made in accordance with any amortization schedule established for such Obligations, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Obligations on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value 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 and any contingencies that may result in a request for earlier payment shall be disregarded;

(C) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is excluded or expected to be excluded from gross income for federal income tax purposes, the interest rate on such Obligations for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the average of the SIFMA Swap Index for the five years preceding such date of calculation (provided, however, that if such index is no longer published, the interest rate on such Obligations shall be calculated based upon such similar index as the City shall designate in writing to the Trustee);

(D) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is included or expected to be included in gross income for federal income tax purposes, the interest rate on such Obligations shall be calculated at an interest rate equal to 100% of the average One Month USD LIBOR Rate during the five years preceding such date of calculation or such higher rate as shall be specified in a Certificate of the City delivered to the Trustee (provided, however, that if such index is no longer published, the interest rate on such Obligations shall be calculated based upon such similar index as the City shall designate in writing to the Trustee);

(E) with respect to any Obligations bearing interest, or expected to bear interest, at a variable interest rate for which an Interest Rate Swap Agreement is in place providing for a synthetic fixed interest rate to maturity or for a specific term with respect to such Obligations, the interest rate on such Obligations shall be assumed to be the synthetic fixed interest rate specified in such Interest Rate Swap Agreement for such term;

(F) with respect to any Obligations bearing interest, or expected to bear interest, at a fixed interest rate for which an Interest Rate Swap Agreement is in place providing for a net variable interest rate with respect to such Obligations for a specific term, the interest rate on such Obligations shall be assumed to be equal for such term to the sum of (1) the fixed interest rate or rates to be paid on the Obligations, minus (2) the fixed interest rate receivable by the City under such Interest Rate Swap Agreement, plus (3) the average interest rate of the index on which the

Interest Rate Swap Agreement is based, as identified in a Certificate of the City delivered to the Trustee, or, if not based on an identifiable index, then the average of the SIFMA Swap Index, in each case, over the five years preceding the date of calculation or such higher rate as shall be specified in a Certificate of the City delivered to the Trustee;

(G) if any Obligations feature an option, on the part of the owners or a requirement under the terms of such Obligations, to tender all or a portion of such Obligations to the City, the Trustee, or other fiduciary or agent, and to purchase such Obligations or portion thereof if properly presented, then for purposes of determining the amounts due in any Fiscal Year on such Obligations, the options or obligations of the owners of such Obligations to tender the same for purchase or payment shall be ignored;

(H) payments on Obligations shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor, and interest payments shall be excluded to the extent that such interest payments are (1) to be paid from the proceeds of Obligations, including any investment earnings thereon, held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or (2) paid or expected to be paid from Subsidy Payments;

(I) with respect to Obligations for which a reserve fund (including a Reserve Fund) is in place, the calculation of Debt Service for such Obligations for any Fiscal Year shall be reduced by the amount of investment earnings on amounts on deposit in such reserve fund used or expected to be used to pay Debt Service on such Obligations during such Fiscal Year;

(J) with respect to Obligations for which a reserve fund (including a Reserve Fund) is in place, the amount on deposit in such reserve fund on any date of calculation of Debt Service shall be deducted from the amount due on the final maturity or due date of such Obligations if such amount on deposit in such reserve fund would be released at such maturity or due date and, to the extent the amount on deposit in such reserve fund is in excess of the amount due on the final maturity or due date of such Obligations, such excess shall be applied to the full amount due in each preceding Fiscal Year, in inverse order, until such amount on deposit in such reserve fund is exhausted;

(K) Reimbursement Obligations or potential Reimbursement Obligations shall be ignored; and

(L) net payments payable by the City on any Interest Rate Swap Agreement shall be ignored to the extent such Interest Rate Swap Agreement is used or expected to be used to determine the interest on Obligations under clauses (E) or (F) of this definition; and

(M) payments on Obligations shall be excluded to the extent such payments are paid or expected to be paid from amounts allocated on the books of the City to the City's storm drainage enterprise fund.

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

“Fee and Expense Obligations” means any obligations of the City that constitute fees, expenses, and similar charges in connection with any Bonds, Parity Obligations, or Subordinate

Obligations (including fees and expenses and termination payments on Interest Rate Swap Agreements) issued or incurred in accordance with Section 3.05(E), which obligations are secured hereunder by the pledge made pursuant to Section 5.01 and payable from the Revenue Fund with the priority set forth in Section 5.02.

“Fees and Expenses Fund” means the fund by that name established pursuant to Section 5.02.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other 12-month period hereafter selected and designated as the official fiscal year period of the City, which designation shall be provided to the Trustee in a Certificate delivered by the City.

“Fitch” means Fitch Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“Include” and its variants are terms of enlargement rather than of limitation. For example, “includes” means “includes but not limited to,” and “including” means “including but not limited to.”

“Indenture” means this Indenture, dated as of April 1, 2013, between the Trustee and the City, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions hereof.

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

“Insurer” means any provider of Insurance with respect to a Series of Bonds.

“Interest Fund” means the fund by that name established pursuant to Section 5.02.

“Interest Payment Date,” with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Interest Rate Swap Agreement” or “Swap” means an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement, or security, however denominated, entered into between the City and a Counterparty, in connection with or incidental to the issuance, incurrence, or carrying of Obligations, including an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement, or security entered into in advance of the issuance or incurrence of Obligations.

“Interest Subsidy Bonds” means Bonds for which the City is entitled to receive Subsidy Payments.

“Investment Securities” means any of the following:

(A) The following obligations may be used as Investment Securities for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash;

(2) Direct obligations of the Department of the Treasury of the United States of America;

(3) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA’s)
- Federal Housing Administration
- Federal Financing Bank; and

(4) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other government sponsored agencies approved by each Credit Enhancement Provider then providing Credit Enhancement for a Series of Bonds.

(B) The following obligations may be used as Investment Securities for all purposes other than defeasance investments in refunding escrow accounts:

(1) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks (including the Trustee and its affiliates) that have a rating (ratings on holding companies are not considered as the rating of the banks) on their short-term certificates of deposit on the date of purchase of “A-1” or “A-1+” by Standard & Poor’s and “P-1” by Moody’s and mature no more than 365 days after the date of purchase;

(2) Commercial paper that is rated at the time of purchase in the single highest classification, “A-1” by Standard & Poor’s or “P-1” by Moody’s, and matures not more than 270 days after the date of purchase;

(3) Investments in a money market fund rated at the time of investment “AAAm” or “AAAm-G” or better by Standard & Poor’s, including funds for which the Trustee or an affiliate provides investment advice or other services;

(4) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(a) which are rated at the time of purchase, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Standard & Poor’s and Moody’s or any successors thereto; or

(b) (i) which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) of this definition, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(5) General obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state with a rating, at the time of purchase, of “Baa1/BBB+” or higher by both Moody’s and Standard & Poor’s;

(6) Any investment agreement with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured, and unguaranteed debt obligations or a claims paying ability rated (or the parent company or guarantor of which is rated) in either of the two highest long-term Rating Categories by Moody’s and Standard & Poor’s;

(7) The Local Agency Investment Fund managed by the Treasurer of the State of California, as referred to in Section 16429.1 of the Government Code of the State, but only to the extent such investment is registered in the name of the Trustee;

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

(9) Investments in the City of Sacramento Investment Pool A; and

(10) Any other forms of investments that relate solely to a Series of Bonds, as specified in a Supplemental Indenture providing for the issuance of such Series of Bonds.

“Letter of Credit Fund” means a fund by that name established to hold funds that are drawn on Credit Enhancement provided in the form of a letter of credit and that are to be applied to pay the principal of or interest on a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

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

“Liquidity Facility Bonds” means any Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility. If designated as such in a Supplemental Indenture, Bonds purchased with moneys drawn under Credit Enhancement in the form of a letter of credit or other similar instrument shall be treated as Liquidity Facility Bonds.

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

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

“Maintenance and Operation Costs” means costs spent or incurred by the City for maintaining and operating the Wastewater System, calculated in accordance with generally accepted accounting principles used by the City consistently applied, including the expenses of maintenance, repair, billing and collection, and other expenses incurred to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City, salaries and wages of employees, payments to employees retirement systems, overhead, taxes (if any), fees of auditors, accountants, attorneys, engineers, or other consultants, and insurance premiums, in each case as attributable to the Wastewater System, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions or improvements to the

Wastewater System that under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, and (4) charges for the payment of Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations.

“Mandatory Sinking Account Payment” means, with respect to Bonds of any Series and maturity, the amount required by the Supplemental Indenture establishing the terms and provisions of such Series of Bonds to be deposited by the City in a Sinking Account for the payment of Term Bonds of such Series and maturity.

“Maturity Date” means, with respect to a Series of Bonds, the date of maturity or maturities specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Maximum Annual Debt Service” means, with respect to any Obligations and as of any date of calculation, the maximum amount of Annual Debt Service becoming due and payable on such Obligations in any Fiscal Year during the period commencing with the Fiscal Year in which such calculation is made and terminating with the last Fiscal Year in which any Debt Service for such Obligations is due.

“Maximum Rate” means, with respect to any Bonds, the lesser of (1) the rate designated as the Maximum Rate for such Bonds in the Supplemental Indenture with respect to such Bonds and (2) the maximum rate of interest that may legally be paid on the Bonds from time to time.

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

“Notice Parties” means, as and to the extent applicable, the City, the Trustee, any Credit Enhancement Provider for the Series of Bonds to which the notice being given relates, any Liquidity Provider for the Series of Bonds to which the notice being given relates, and any other party designated as a “Notice Party” for a Series of Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds.

“Obligations” means any Bonds, any Parity Obligations, or any Subordinate Obligations, as applicable.

“One Month USD LIBOR Rate” means the rate for deposits in U.S. dollars for a one-month maturity that appears on Reuters Screen LIBOR01 Page (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time on the date of determination of such rate, except that, if such rate does not appear on such page on such date, then One Month USD LIBOR Rate means a rate determined on the basis of the rates at which deposits in U.S. dollars for a one-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time on such date to prime banks in the London interbank market by three major banks in the London interbank market (herein referred to as the “Reference Banks”) selected by

the City (provided, however, that the City may appoint an agent to identify such Reference Banks). The City or its agent is to request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the One Month USD LIBOR Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the One Month LIBOR Rate will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the City or its agent, at approximately 11:00 a.m. New York City time on such date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a one-month maturity. If none of the banks in New York City selected by the City or its agent is then quoting rates for such loans, then the One Month USD LIBOR Rate for the ensuing interest period will mean the One Month USD LIBOR Rate most recently in effect.

“Opinion of Bond Counsel” means a written opinion of a law firm of national standing in the field of public finance selected by the City.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with Section 10.02, including Bonds (or portions of Bonds) referred to in Section 11.10; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture; provided, however, that in the event the principal of or interest due on any Bonds shall be paid by the Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with such Bonds, such Bonds shall, to the extent of such payment, remain Outstanding for all purposes and shall not be considered defeased or otherwise satisfied or paid by the City, and the pledge of the Trust Estate and all covenants, agreements, and other obligations of the City to the Holders shall continue to exist and shall run to the benefit of such Credit Enhancement Provider, and such Credit Enhancement Provider shall, to the extent of such payment, be subrogated to the rights of such Holders.

“Parity Obligations” means (1) the City’s obligations with respect to the loans disbursed under the SWRCB Loan Contracts, (2) any obligation of the City (excluding fees and expenses and termination payments on Interest Rate Swap Agreements, which fees and expenses and termination payments shall be secured as Fee and Expense Obligations) incurred in accordance with Section 3.05(C), and (3) any obligation of the City to pay the Rebate Requirement, all of which obligations are secured hereunder by the pledge made pursuant to Section 5.01 and payable from the Revenue Fund with the priority set forth in Section 5.02.

“Participating Bonds” means the Bonds of each Series which, pursuant to the terms of the Supplemental Indenture relating to such Series, are secured by amounts in the Bond Reserve Fund.

“Participating Underwriter” means any of the original underwriters of a Series of Bonds required to comply with 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.

“Person” means an association, corporation, firm, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof, or any other entity, whether or not a legal entity.

“Principal Fund” means the fund by that name established pursuant to Section 5.02.

“Principal Payment Date” means any date any amount of Bond Obligation becomes due and payable or any Mandatory Sinking Account Payments are required to be paid.

“Project Fund” means, with respect to any Series of Bonds, a fund by that name established pursuant to the provisions of a Supplemental Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the particular projects being financed with the proceeds of such Series of Bonds.

“Proportionate Basis,” when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided, however that, any Bond may only be redeemed in an authorized denomination. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of a portion of Bonds, “Proportionate Basis” shall have the same meaning set forth above except that “pay” or purchase” shall be substituted for “redeem” or “redemption” and “paid” or “purchased” shall be substituted for “redeemed.”

“Purchase Fund” means a fund by that name established to hold funds to be applied to pay the purchase price of a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Rate Stabilization Fund” means the fund within the Wastewater Fund referred to by that name in Section 6.07(B).

“Rating Agency” means, as and to the extent applicable to a Series of Bonds, each of Fitch, Moody’s, and Standard & Poor’s, but in each instance only so long as each such Rating Agency maintains a rating on such Series of Bonds at the Request of the City.

“Rating Category” means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign, or other modifier; and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Rebate Fund” means the fund by that name established pursuant to Section 5.09.

“Rebate Instructions” means, with respect to any Series of Bonds, those calculations and directions required to be delivered to the Trustee by the City pursuant to the Tax Certificate delivered in connection with such Series of Bonds.

“Rebate Requirement” means, with respect to any Series of Bonds, the Rebate Requirement determined in accordance with the Tax Certificate delivered in connection with such Series of Bonds.

“Record Date,” with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Redemption Fund” means the fund by that name established pursuant to Section 5.08.

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

“Refunding Bonds” means a Series of Bonds or a portion of a Series of Bonds issued pursuant to the provisions set forth in Section 3.04.

“Reimbursement Obligations” means any obligation of the City to repay, from System Net Revenues, amounts provided by a Credit Enhancement Provider under a Credit Enhancement or by Liquidity Facility Provider under a Liquidity Facility as credit or liquidity support for a Series of Bonds or by any similar credit provider or liquidity provider as credit or liquidity support for Parity Obligations or Subordinate Obligations.

“Repository” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission or any successor agency thereto to receive reports and notices pursuant to Rule 15c2-12.

“Reserve Facility” means any insurance policy, letter of credit, or surety bond issued by a Reserve Facility Provider, meeting the requirements set forth in Section 5.05, and delivered to the Trustee in satisfaction of all or a portion of the Bond Reserve Requirement applicable to one or more Series of Bonds.

“Reserve Facility Provider” means any issuer of a Reserve Facility.

“Reserve Fund” means the Bond Reserve Fund or a Bond Series Reserve Fund, as the context requires.

“Revenue Bond Index” means the Revenue Bond Index published from time to time in *The Bond Buyer*.

“Revenue Fund” means the fund by that name established pursuant to Section 5.01.

“Rule 15c2-12” means Securities and Exchange Commission Rule 15c2-12, as supplemented and amended from time to time.

“Securities Depository” means The Depository Trust Company, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depository, or no such depositories, as the City may designate in a Request of the City delivered to the Trustee.

“Serial Bonds” means Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

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

“Series 2013 Bonds” means the City of Sacramento Wastewater Revenue Bonds, Series 2013 authorized by, and at any time Outstanding pursuant to, this Indenture.

“SIFMA Swap Index” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) (“SIFMA”) or by any Person acting in cooperation with or under the sponsorship of SIFMA and effective from such date.

“Sinking Account” means an account by that name established in the Principal Fund pursuant to Section 5.04 for the payment of Term Bonds.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, which is a subsidiary of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” or “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“State” means the State of California.

“SWRCB Loan Contracts” means (i) the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 7-819-550-0, Loan No. C-06-4441-110), dated as of September 30, 1997; (ii) the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 7-829-550-0, Loan No. C-06-4441-120), dated as of April 10, 1998; (iii) the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 99-831-550-0, Loan No. C-06-4653-110), dated as of April 27, 2000; (iv) the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 99-826-550-0, Loan No. C-06-4652-110, dated as of May 3, 2000; and (v) the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 00-806-550-0, Loan No. C-06-4685-110), dated as of September 7, 2000, each

between the City and the State of California, acting through the State Water Resources Control Board (the “SWRCB”).

“Subordinate Obligations” means any obligations (excluding fees and expenses and termination payments on Interest Rate Swap Agreements, which fees and expenses and termination payments shall be secured as Fee and Expense Obligations) of the City issued or incurred in accordance with Section 3.05(D), which obligations are secured hereunder by the pledge made pursuant to Section 5.01 and payable from the Revenue Fund with the priority set forth in Section 5.02.

“Subordinate Obligations Fund” means the fund by that name established pursuant to Section 5.02.

“Subsidy Payments” means payments with respect to the interest due on a Series of Bonds made by the United States Treasury to the Trustee pursuant to Section 54AA of the Code, Section 6431 of the Code, or Section 1400U-2 of the Code or any successor to or extension or replacement of any of such provisions of the Code, or any provisions of the Code that create substantially similar direct-pay subsidy programs to such programs created pursuant to Section 54AA, Section 6431, or Section 1400U-2 of the Code.

“Supplemental Indenture” means any indenture hereafter duly executed and delivered, supplementing, modifying, or amending this Indenture, but only if and to the extent that such supplemental indenture is authorized hereunder.

“Swap Revenues” means all amounts, including termination payments, owed or paid to the City by any Counterparty under any Interest Rate Swap Agreement after offset for amounts owed or paid by the City to such Counterparty under such Interest Rate Swap Agreement.

“System Net Revenues” means System Revenues remaining after payment of Maintenance and Operation Costs then due and payable.

“System Revenues” means all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Wastewater System determined in accordance with generally accepted accounting principles, consistently applied, including (1) all income, rents, rates, fees, connection fees, sewer development fees, charges, standby charges, capacity charges, or other moneys derived by the City from the wastewater services or facilities, and commodities or byproducts, sold, furnished, or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, and including investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Wastewater System by or pursuant to law; (2) any amount received from the levy or collection of taxes that are solely available and are earmarked for the support of the operation of the Wastewater System; (3) allocations from the Rate Stabilization Fund to the Wastewater Fund; and (4) grants for maintenance and operations to the extent that the restrictions for the use thereof do not preclude them from being applied to the payment of Maintenance and Operation Costs or the Obligations; provided, however, that System Revenues shall exclude in all cases (a) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City and (b) any proceeds of the voter-approved general tax imposed on the gross

revenues of the Wastewater System from user fees and charges, which proceeds are paid into the City's General Fund pursuant to Section 3.20.010 of the Sacramento City Code. As provided in Section 6.07(B), the amount of available System Revenues shall be reduced by the amount of System Revenues allocated to the Rate Stabilization Fund.

"Tax Certificate" means each Tax Certificate delivered by the City at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"Term Bonds" means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"Trust Estate" shall have the meaning given to such term in Section 5.01(A)(2).

"Trustee" means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in Section 8.01.

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

"Wastewater Fund" means the existing fund by that name established and maintained by the City on its books.

"Wastewater Service" means the wastewater services made available or provided by the Wastewater System.

"Wastewater System" means the whole and each and every part of the properties, works, and facilities of the wastewater system of the City including the portion thereof existing on the date hereof and including all additions, betterments, extensions, replacements, and improvements to such system or any part thereof and hereafter acquired or constructed.

SECTION 1.03. Content of Certificates.

(A) Every certificate provided for in this Indenture with respect to compliance with any provision hereof shall include (1) a statement that the person making or giving such certificate has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate is based; (3) a statement that, in the opinion of such person, he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter referred to in the instrument to which his or her signature is affixed; and (4) a statement as to whether, in the opinion of such person, such provision has been complied with.

(B) Any such certificate given by an officer of the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by

counsel, an accountant, a financial advisor, an investment banker, or an independent consultant unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion, or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant, a financial advisor, an investment banker, or an independent consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City), upon a certificate or opinion of or representation by an officer of the City unless such counsel, accountant, financial advisor, investment banker, or independent consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the City, or the same counsel, accountant, financial advisor, investment banker, or independent consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Indenture, but different officers, counsel, accountants, financial advisors, investment bankers or independent consultants may certify to different matters.

ARTICLE II

THE BONDS

SECTION 2.01. Authorization of Bonds. Bonds may be issued hereunder as fully registered bonds without coupons, in book-entry form or otherwise, from time to time as the issuance thereof is approved by the City. The maximum principal amount of Bonds that may be issued hereunder is not limited; subject, however, to any limitations imposed by law and to the right of the City, which is hereby reserved, to limit the aggregate principal amount of Bonds that may be issued or Outstanding hereunder. The Bonds are designated generally as "City of Sacramento Wastewater Revenue Bonds" or "City of Sacramento Wastewater Revenue Notes," each Series thereof to bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of Bonds. The Bonds may be issued in such Series as from time to time shall be established and authorized by the City, subject to the covenants, provisions, and conditions herein contained or contained in any Supplemental Indenture providing for the issuance of such Series of Bonds.

SECTION 2.02. Terms of the Bonds.

(A) The Bonds of each Series shall bear interest, if any, at such rate or rates or determined in such manner and payable at such intervals as may be determined by the City at the time of issuance thereof pursuant to the Supplemental Indenture under which issued, not to exceed the Maximum Rate, and shall mature on such date or dates as the City may determine by the Supplemental Indenture creating such Series. Principal of and interest on such Bonds shall be payable on such date or dates in such manner as may be specified in the Supplemental Indenture creating such Series. The Bonds of each Series shall be issued in such denominations as may be authorized by the Supplemental Indenture creating such Series.

(B) Unless otherwise provided in the Supplemental Indenture delivered in connection with such Series of Bonds, the Bonds of each Series shall be initially registered in the name of "Cede & Co." as nominee of the Securities Depository and shall be evidenced by one bond

certificate for each maturity of each Series of Bonds bearing interest at a particular rate of interest per annum (or method of interest rate determination). Unless otherwise provided in the Supplemental Indenture delivered in connection with such Series of Bonds, registered ownership of any Series of Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.10 or, in the event the use of the Securities Depository is discontinued, in accordance with the provisions set forth in Section 2.05.

SECTION 2.03. Form of Bonds. The Bonds of any Series shall be in such form or forms as may be specified in the Supplemental Indenture creating such Series.

SECTION 2.04. Execution of Bonds.

(A) The Bonds shall be executed in the name and on behalf of the City by the facsimile or manual signature of an Authorized Representative. Unless otherwise provided in any Supplemental Indenture, the Bonds shall then be delivered to the Trustee for authentication by the Trustee. In case one or more of the persons who shall have signed any of the Bonds as an officer of the City shall cease to be such an officer before the Bonds so signed shall have been authenticated or delivered by the Trustee or issued by the City, such Bonds may nevertheless be authenticated, delivered, and issued and, upon such authentication, delivery, and issue, shall be as binding upon the City as though those who signed the same had continued to be such officers of the City, and also any Bond may be signed on behalf of the City by such persons as at the actual date of execution of such Bond shall be the proper officers of the City although at the nominal date of such Bond any such person shall not have been such officer of the City.

(B) Except as may otherwise be provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form recited in the Supplemental Indenture creating such Series of Bonds, 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 authentication when manually executed by the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated, and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.05. Transfer of Bonds.

(A) Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of Section 2.07, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee.

(B) Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same Series, tenor, maturity and interest rate and a like aggregate principal amount; provided that, unless otherwise provided in any Supplemental Indenture, no registration of transfer of any Bond or portion of a Bond so selected for redemption may occur during the period established by the Trustee for selection of Bonds for redemption. The Trustee shall require the Bondholder

requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

SECTION 2.06. Exchange of Bonds. Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor, maturity, and interest rate; provided that, unless otherwise provided in any Supplemental Indenture, no exchange may occur or of any Bond or portion of a Bond so selected for redemption during the period established by the Trustee for selection of Bonds for redemption. The Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

SECTION 2.07. Bond Register. Unless otherwise provided in a Supplemental Indenture delivered in connection with a Series of Bonds, the Trustee shall keep or cause to be kept, at its Corporate Trust Office, sufficient books for the registration and transfer of each Series of Bonds, and the Trustee shall at all times keep the books open to inspection during normal business hours by the City and each Credit Enhancement Provider upon 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 such books, Bonds as hereinbefore provided.

SECTION 2.08. Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed, or typewritten; shall be of such denomination as may be determined by the City; shall be in registered form; and may contain such reference to any of the provisions of this Indenture as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount, and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond shall be executed by the City and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds, the City will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered for cancellation and exchanged for definitive Bonds at the Corporate Trust Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same Series, tenor, and maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

SECTION 2.09. Bonds Mutilated; Lost; Destroyed or Stolen. If any Bond shall become mutilated, the City shall execute, at the expense of the Holder of the Bond, and the Trustee shall thereupon authenticate and deliver, a new Bond of like Series, tenor, maturity, and interest rate in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by the Trustee and delivered to, or upon the Order of, the City. If any Bond shall be lost, destroyed, or stolen, evidence of such loss, destruction, or theft may be submitted to the City and to the Trustee and, if such evidence be satisfactory to both and indemnity satisfactory to both shall be given, the City shall execute, at the expense of the Holder, and the Trustee shall

thereupon authenticate and deliver, a new Bond of like Series, tenor, maturity, and interest rate in lieu of and in substitution for the Bond so lost, destroyed, or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon receipt of the aforementioned indemnity). The City may require payment of an amount not exceeding the sum of the actual cost of preparing each new Bond issued under this Section 2.09 and the related expenses that may be incurred by the City and the Trustee. Any Bond issued under the provisions of this Section 2.09 in lieu of any Bond alleged to be lost, destroyed, or stolen shall constitute an original additional contractual obligation on the part of the City, whether or not the Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture. Neither the City nor the Trustee shall be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds that may be issued hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same.

SECTION 2.10. Use of Securities Depository. Unless otherwise provided in a Supplemental Indenture delivered in connection with a Series of Bonds, the following provisions apply notwithstanding any provision of this Indenture to the contrary:

(A) The Bonds shall be delivered and registered as provided in Section 2.02. Registered ownership of any Series of Bonds, or any portion thereof, may not thereafter be transferred except:

(1) To any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to Section 2.10(A)(2) (each, a “substitute depository”); provided that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(2) To any substitute depository designated by the City upon (a) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (b) a determination by the City that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository, provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(3) To any Person designated by the City, upon (a) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository, provided that no substitute depository can be obtained; or (b) to the extent permitted by law, a determination by the City that it is in the best interests of the City to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

(B) In the case of any transfer pursuant to Section 2.10(A)(1) or 2.10(A)(2), upon receipt of the Outstanding Bonds by the Trustee, together with a Statement of the City to the

Trustee, a single new Bond for each maturity of each Series of Bonds bearing a particular rate of interest per annum then Outstanding shall be executed and delivered in the aggregate principal amount of the Bonds of such Series then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Statement of the City. In the case of any transfer pursuant to Section 2.10(A)(3), upon receipt of the Outstanding Bonds by the Trustee together with the Statement of the City to the Trustee, new Bonds of each Series then Outstanding shall be authorized and prepared by the City and authenticated and delivered by the Trustee in such authorized denominations and registered in the names of such Persons as are requested in such a Statement of the City, numbered in such manner as the Trustee shall determine, subject to the limitations of Section 2.02.

(C) In the case of partial redemption or an advance refunding of any Series of the Bonds evidencing all or a portion of such amount Outstanding, the Securities Depository shall make an appropriate notation on such Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(D) The City and the Trustee shall be entitled to treat the Person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall have no responsibility for transmitting payments to, communicating with, or notifying or otherwise dealing with any Beneficial Owners of the Bonds. Neither the City nor the Trustee will have any responsibility or obligations, legal or otherwise, to the Beneficial Owners or to any other party including the Securities Depository or its successor (or substitute depository or its successor), except for the Holder of any Bond.

(E) So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assign, the City and the Trustee shall cooperate with Cede & Co. or its registered assign as sole registered Bondholder in effecting payment of the principal of, and redemption premium (if any), purchase price, and interest on, the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

ARTICLE III

ISSUANCE OF BONDS

SECTION 3.01. Issuance of Bonds. Whenever the City shall determine to issue a Series of Bonds hereunder, the City (A) shall authorize the execution of a Supplemental Indenture specifying the principal amount and forms of the Bonds of such Series and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining the same), Maximum Rate (if such Series of Bonds constitutes Variable Rate Indebtedness), redemption provisions, tender provisions (if any), place or places of payment of principal, purchase price, or Redemption Price (if any) of, and interest on, such Bonds, and any other provisions respecting the Bonds of such Series not inconsistent with the terms of this Indenture; (B) shall execute such Supplemental Indenture; and (C) shall deliver such Supplemental Indenture to the Trustee for execution.

SECTION 3.02. Issuance of Additional Bonds. Subsequent to the issuance of the Series 2013 Bonds, the City may by Supplemental Indenture establish one or more additional Series of Bonds that, subject to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture, are payable from the Trust Estate and secured by the pledge made under this Indenture equally and ratably with the Series 2013 Bonds, and the City may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the City, but only, with respect to each additional Series of Bonds issued subsequent to the Series 2013 Bonds issued hereunder, upon compliance by the City with the provisions of this Section 3.02, Section 3.03, and any additional requirements set forth in the Supplemental Indenture each of which is hereby made a condition precedent to the issuance of any such additional Series of Bonds.

(A) No Event of Default shall have occurred and then be continuing (or the issuance of such additional Series of Bonds will cure any such Event of Default).

(B) The Supplemental Indenture providing for the issuance of such Series shall state whether the Bonds of such Series are Participating Bonds. If the Bonds of such Series are Participating Bonds, the Supplemental Indenture shall require a deposit of the amount, if any, necessary to increase the amount on deposit in the Bond Reserve Fund to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Participating Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds. Subject to the provisions of Section 5.05, if a Supplemental Indenture providing for the issuance of such Series shall require either (1) the establishment of a Bond Series Reserve Fund to provide additional security for such Series of Bonds, or (2) that the balance on deposit in an existing Bond Series Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Series Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, then the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. The deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the City or from both such sources or may be made in the form of a Reserve Facility.

(C) The aggregate principal amount of Bonds issued hereunder shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The City shall deliver to the Trustee a Certificate of the City, which Certificate shall also set forth the computations upon which such Certificate is based, certifying either of the following:

(1) The System Net Revenues for either the most recent Fiscal Year for which audited financial statements are available or for any other period of 12 consecutive months (selected by the City) during the 18 months immediately preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least

equal to the Coverage Requirement for the most recently completed Fiscal Year, including in the calculation of the Coverage Requirement for this purpose the Average Annual Debt Service for the additional Series of Bonds to be issued. For the purpose of providing such Certificate, the City may adjust the System Net Revenues for such Fiscal Year or 12-month period, as the case may be, to reflect—

(a) an allowance for System Net Revenues that would have been derived from each new connection to the Wastewater System made prior to the issuance of such additional Series of Bonds but which was not in existence, during all or any part of such Fiscal Year or 12-month period under consideration, in an amount equal to 90% of the estimated additional System Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or 12-month period, and

(b) an allowance for System Net Revenues that would have been derived from any increase in the rates, fees, and charges fixed and prescribed for Wastewater Service which became effective prior to the issuance of such additional Series of Bonds but which was not in effect, during all or any part of such Fiscal Year or 12-month period, in an amount equal to the estimated additional System Net Revenues that would have been derived from such increase in rates, fees, and charges if it had been in effect prior to the beginning of such Fiscal Year or 12-month period.

(2) The estimated System Net Revenues for each of the five Fiscal Years next following the earlier of (i) the end of the period during which interest on the additional Series of Bonds is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the additional Series of Bonds is to be issued, or (ii) the date on which substantially all projects financed with the proceeds of any Bonds, including the additional Series of Bonds to be issued, are expected to commence operations will be at least equal to the Coverage Requirement for each such Fiscal Year. For the purpose of providing such Certificate, the City may adjust the System Net Revenues to reflect—

(a) an allowance for System Net Revenues that are estimated to be derived from any increase in the rates, fees, and charges for Wastewater Service which have been adopted by the City and which will be in effect during all or any portion of the period for which such estimates are provided; and

(b) an allowance for System Net Revenues that are estimated to be derived from new customers of the Wastewater System anticipated to be served by any additions or improvements to or replacements or extensions of the Wastewater System reasonably expected to become available during all or any portion of the period for which such estimates are provided in an amount equal to 90% of the additional System Net Revenues that are estimated to be derived from such customers.

For purposes of any computation pursuant to Section 3.02(D)(2), with respect to Maintenance and Operation Costs, the City shall use such assumptions (which shall be set forth

in the Certificate) as the City believes to be reasonable, taking into account (i) historical Maintenance and Operation Costs; (ii) Maintenance and Operation Costs associated with the additions or improvements to or replacements or extensions of the Wastewater System to be financed with the proceeds of such additional Series of Bonds and any other new additions or improvements to or extensions of the Wastewater System during any period for which estimates are provided; and (iii) such other factors, including inflation and changing operations or policies of the City, as the City believes to be appropriate.

Nothing in this Section 3.02 or in this Indenture contained shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by this Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

SECTION 3.03. Proceedings for Issuance of Additional Bonds. Subsequent to the issuance of the Series 2013 Bonds, before any additional Series of Bonds shall be issued and delivered, the City shall deliver each of the following documents to the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

(A) A Supplemental Indenture authorizing such Series and executed by the City.

(B) A Certificate of the City certifying (1) that no Event of Default has occurred and is then continuing (or the issuance of such additional Series of Bonds will cure any such Event of Default); and (2) that the requirements specified in Section 3.02(B) and Section 3.02(C) hereof have been satisfied by the City.

(C) A Certificate of the City pursuant to Section 3.02(D).

(D) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with this Indenture and that such Series of Bonds will be valid and binding obligations of the City when duly executed by the City and authenticated and delivered by the Trustee.

SECTION 3.04. Issuance of Refunding Bonds.

(A) Refunding Bonds may be authorized and issued by the City without compliance with the provisions of Sections 3.02(D) or 3.03(C) provided that the Trustee shall have been provided with a Certificate of the City to the effect that the City has determined that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds. Such Refunding Bonds may be issued in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all or a portion of the following:

(1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;

(2) all expenses incident to the calling, retiring, or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;

(3) any termination payment owed by the City to a Counterparty after offset for any payments made to the City from such Counterparty under any Interest Rate Swap Agreement that was entered into in connection with the Bonds or Parity Obligations to be refunded;

(4) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;

(5) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and

(6) funding the Reserve Fund for the Refunding Bonds, if required.

(B) Before such Series of Refunding Bonds shall be issued and delivered pursuant to this Section 3.04, the City shall deliver each of the documents identified below to the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Refunding Bonds have been satisfied):

(1) A Supplemental Indenture authorizing such Series of Refunding Bonds and executed by the City.

(2) A Certificate of the City certifying (i) that the Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds; and (ii) that the requirements of Sections 3.02(A), 3.02(B), and 3.02(C) are satisfied.

(3) If any of the Bonds to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of redemption or a waiver of the notice of redemption, signed by the Holders of all or the portion of the Bonds or Parity Obligations to be redeemed, or proof that such notice has been given by the City; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the City may cause to be deposited with the Trustee all of the Bonds and Parity Obligations proposed to be redeemed (whether canceled or uncanceled) with irrevocable instructions to the Trustee to cancel the Bonds or Parity Obligations so to be redeemed upon the exchange and delivery of the Refunding Bonds; and provided further that no provision of this Indenture shall be construed to require the redemption of Bonds prior to their respective maturity dates in connection with the refunding thereof.

(4) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with this Indenture and that such Series of Refunding

Bonds will be valid and binding obligations of the City when duly executed by the City and authenticated and delivered by the Trustee.

(C) The proceeds of the sale of the Refunding Bonds shall be applied by the Trustee according to the written direction of the City to the retirement of the Outstanding Bonds or Parity Obligations for the refunding of which the Refunding Bonds are to be issued. All Bonds or Parity Obligations purchased, redeemed, or retired by use of funds received from the sale of Refunding Bonds, and all Bonds surrendered to the Trustee against the issuance of Refunding Bonds, shall be forthwith canceled and shall not be reissued.

(D) Notwithstanding the other provisions of this Section 3.04, the City may issue any Series of Bonds for the purposes of providing funds for the payment of any item described in Section 3.04(A)(1) through 3.04(A)(6) by satisfying the requirements of Sections 3.02 and 3.03 instead of the requirements of this Section 3.04.

SECTION 3.05. Limitations on the Issuance of Obligations Payable from the Trust Estate; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations. So long as any of the Bonds are Outstanding, the City shall not issue or incur any obligations or securities payable in whole or in part from the Trust Estate, howsoever denominated, except as follows:

(A) Bonds authorized pursuant to Sections 3.01 and 3.02.

(B) Refunding Bonds authorized pursuant to Section 3.04.

(C) Parity Obligations, provided that all of the following conditions to the issuance or incurrence of such Parity Obligations are satisfied on or as of the date on which the City issues or incurs such Parity Obligations:

(1) No Event of Default shall have occurred and then be continuing (or the issuance of such Parity Obligations will cure any such Event of Default), as evidenced by the delivery to the Trustee of a Certificate of the City to that effect.

(2) The City shall deliver to the Trustee a Certificate of the City, which Certificate shall also set forth the computations upon which such Certificate is based, certifying one of the following:

(a) Such Parity Obligations are being issued or incurred for purposes of refunding as described in Section 3.04(A), and the City has determined that the Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance or incurrence of such Parity Obligations is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance or incurrence of such Parity Obligations.

(b) The requirements set forth in Section 3.02(D) have been satisfied with respect to such Parity Obligations; provided, however that if the Parity Obligation being issued or incurred consists of an Interest Rate Swap Agreement that relates to a Series of Bonds or Parity Obligations (excluding fees and

expenses and termination payments on such Interest Rate Swap Agreement), the City shall be deemed to have complied with the requirements of this Section 3.05(C)(2)(b), with respect to such Interest Rate Swap Agreement to the extent that the Series of Bonds or Parity Obligations to which the Interest Rate Swap Agreement relates (i) satisfies the requirements of Section 3.02(D) after taking into account the adjustment of Debt Service on such Series of Bonds or Parity Obligations to reflect the impact of the Interest Rate Swap Agreement (in the case of Interest Rate Swap Agreements entered into concurrently with, or subsequent to, the issuance of such Bonds or Parity Obligations); or (ii) is expected to satisfy the requirements of Section 3.02(D) after taking into account the adjustment of Debt Service on such Series of Bonds or Parity Obligations to reflect the impact of the Interest Rate Swap Agreement (in the case of Interest Rate Swap Agreements entered into in advance of the issuance of such Bonds or Parity Obligations).

(c) Such Parity Obligations consist of Reimbursement Obligations relating to Bonds or Parity Obligations.

(3) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Parity Obligations.

(D) Subordinate Obligations, provided that both of the following conditions to issuance or incurrence of such Subordinate Obligations are satisfied on or as of the date on which the City issues or incurs such Subordinate Obligations:

(1) No Event of Default shall have occurred and then be continuing (or the issuance of such Subordinate Obligations will cure any such Event of Default), as evidenced by the delivery to the Trustee of a Certificate of the City to that effect.

(2) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Subordinate Obligations.

(E) Fee and Expense Obligations.

Nothing contained in this Indenture shall limit the ability of the City to issue or incur obligations payable from the Trust Estate or any portion thereof on a basis that is subordinate in both payment and lien priority to the Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations.

SECTION 3.06. Calculation of Maximum Annual Debt Service with Respect to Bonds and Parity Obligations. For purposes of this Article III, the Maximum Annual Debt Service with respect to Bonds shall be determined no later than the date of delivery of such Bonds, and no earlier than the date of pricing or sale of such Bonds, utilizing the assumptions set forth in the definition of Debt Service. For purposes of this Article III, the Maximum Annual Debt Service with respect to Parity Obligations shall be determined no later than the date of incurrence of such Parity Obligations utilizing the assumptions set forth in the definition of Debt Service.

SECTION 3.07. Application of Proceeds. Proceeds of each Series of Bonds shall be applied as specified in the Supplemental Indenture pursuant to which such Series of Bonds is issued.

SECTION 3.08. Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations. The City shall designate additional Parity Obligations, Subordinate Obligations, or Fee and Expense Obligations in a Supplemental Indenture, a Certificate of the City delivered to the Trustee, or in the instrument providing for the issuance or incurrence of such Parity Obligations, Subordinate Obligations, or Fee and Expense Obligations, in each case concurrently with the issuance or incurrence of such Parity Obligations, Subordinate Obligations, or Fee and Expense Obligations.

ARTICLE IV

REDEMPTION, TENDER AND PURCHASE OF BONDS

SECTION 4.01. Terms of Redemption, Tender and Purchase. Each Series of Bonds may be made subject to redemption or tender and purchase prior to the stated maturities, as a whole or in part, at such time or times, upon such terms and conditions, and upon such notice and with such effect as may be provided in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

SECTION 4.02. Notice of Redemption.

(A) Unless otherwise specified in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, each notice of redemption shall be given by the Trustee to each Holder and the Repository not less than 20 nor more than 60 days prior to the redemption. A copy of such notice shall also be provided to each of the Notice Parties with respect to Series of Bonds to which such notice relates. Notice of redemption to the Holders, the Repository, and the applicable Notice Parties shall be given by first-class mail, electronic means, or such other method as may be authorized with respect to a Series of Bonds in the Supplemental Indenture creating such Series of Bonds. Each notice of redemption shall state the date of such notice, the date of issue of the Series of Bonds to which such notice relates, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, in the case of Bonds to be redeemed in part only, the portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of the Bonds the Redemption Price thereof (or of the specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only) together with interest accrued thereon to the date fixed for redemption, that from and after such redemption date interest thereon shall cease to accrue, and that such Bonds shall be surrendered on the redemption date at the address or addresses of the Trustee specified in the redemption notice. Neither the City nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the City nor the Trustee shall be liable for any inaccuracy in such CUSIP numbers.

(B) The sufficiency or validity of the proceedings for redemption shall not be affected by the Trustee's failure to give notice to any Notice Party or the Repository; or by the failure of any Holder, any Notice Party, or any Repository to receive notice; or by any defect in any such notice.

(C) With respect to any notice of optional redemption of Bonds delivered pursuant to this Section 4.02 or any provision of any Supplemental Indenture, unless, upon the giving of such notice, such Bonds are deemed to have been paid within the meaning of Article X, such notice shall state (1) that redemption will be conditional upon the receipt by the Trustee on or before the date fixed for redemption of amounts sufficient to pay the principal of, and premium (if any) and interest on, such Bonds to be redeemed and (2) that if such amounts are not so received, then the notice shall be of no force and effect and the City shall not be required to redeem such Bonds. The City may also instruct the Trustee to provide conditional notice of optional redemption, which may be conditioned on the occurrence of any other event if such notice states that if such event does not occur then the notice shall be of no force and effect and the City shall not be required to redeem such Bonds. If a notice of optional redemption contains such a condition and such amounts are not so received or such event does not occur, then the optional redemption shall not be made, and the Trustee shall, within a reasonable time thereafter, give notice to the Holders to the effect that such amounts were not so received or such event did not occur and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given. Such failure to optionally redeem such Bonds shall not constitute an Event of Default.

(D) The City may rescind any notice of optional redemption given pursuant to this Section 4.02 by giving the Trustee notice in writing or by electronic means at least five Business Days before the date specified for redemption. As soon as practicable thereafter, the Trustee shall give a notice of rescission in the same manner, and to the same Persons, as notice of such redemption was given pursuant to this Section 4.02.

SECTION 4.03. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Holder thereof, at the expense of the City, a new Bond or Bonds of authorized denominations, and of the same Series and maturity, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

SECTION 4.04. Effect of Redemption. Notice of redemption having been duly given pursuant to Section 4.02, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the redemption date, interest on the Bonds (or portions thereof) so called for redemption shall cease to accrue, the Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture and the Holders of the Bonds (or portions thereof) shall have no rights in respect thereof except to receive payment of the Redemption Price and accrued interest to the date fixed for redemption from funds held by the Trustee for such payment and such funds are hereby pledged to such payment.

All Bonds redeemed pursuant to the provisions of this Article shall be canceled upon surrender thereof.

ARTICLE V

PLEDGE OF TRUST ESTATE; ESTABLISHMENT AND APPLICATION OF FUNDS AND ACCOUNTS

SECTION 5.01. Wastewater Fund; Revenue Fund; Pledge of Trust Estate.

(A) (1) So long as any Bonds are Outstanding or Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or any other amounts payable hereunder remain unpaid, the City covenants and agrees that all System Revenues received by it shall be accounted for when and as received in the Wastewater Fund which fund the City covenants and agrees to maintain on the City's books so long as any Bonds are Outstanding or Parity Obligations, Subordinate Obligations, Fee and Expense Obligations, or any other amounts payable hereunder remain unpaid, and all money accounted for within the Wastewater Fund shall be applied and used only as provided herein and the Wastewater Fund shall be accounted for separate and apart from all other moneys, funds, or other resources of the City. The City may, to the extent provided in Section 6.07(B), allocate amounts accounted for in the Wastewater Fund to the Rate Stabilization Fund or allocate amounts accounted for in the Rate Stabilization Fund to the Wastewater Fund. From amounts accounted for within the Wastewater Fund, the City shall pay, in the following order of priority: first, to the applicable payee or as otherwise required, all Maintenance and Operation Costs (including amounts reasonably required by the City to be set aside in contingency reserves for Maintenance and Operation Costs, the payment of which is not immediately required) as they become due and payable; and second, to the Trustee on or before each date the Trustee is required to make any transfer or deposit pursuant to Section 5.02 or 5.05 of this Indenture, such amount as is required for the Trustee to make the transfers and deposits required to be made by the Trustee on such date by Section 5.02 and Section 5.05 of this Indenture, including all amounts of principal, purchase price, interest, and Redemption Price then due and payable with respect to the Bonds. If (a) no Event of Default has occurred and is continuing, (b) all Maintenance and Operation Costs are being and have been paid and are then current, and (c) all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid, then all money accounted for in the Wastewater Fund, and the proceeds thereof, will be available for any lawful purpose of the City.

(2) As security for the payment of all amounts owing on the Bonds, the Parity Obligations, the Subordinate Obligations and the Fee and Expense Obligations, in the amounts and with the priorities set forth herein and in the Bonds, the City hereby irrevocably pledges to the Trustee (a) all System Net Revenues collected after the date of issuance of the Series 2013 Bonds; (b) all funds and accounts held by the Trustee hereunder or any Supplemental Indenture (other than the Rebate Fund, all Letter of Credit Funds, and all Purchase Funds) and all investments, money, instruments, and other property credited thereto or on deposit therein; (c) all investment earnings on amounts held by the Trustee in the funds and accounts established hereunder, excluding amounts deposited in the Rebate Fund, any Letter of Credit Fund, and any Purchase Fund; (d) all

Swap Revenues; (e) all Subsidy Payments; and (f) all proceeds of the foregoing whether now existing or hereafter arising (clauses (a) through (f) of this Section 5.01(A)(2) collectively, the “Trust Estate”), subject to the provision of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture. This collateral shall immediately be subject to this pledge, and this pledge shall constitute a lien and security interest which shall immediately attach to the collateral and be effective, binding, and enforceable against the City and all others asserting the rights therein, to the extent set forth, and in accordance with, this Indenture irrespective of whether those parties have notice of this pledge and without the need for any physical delivery, recordation, filing or further act. Any System Net Revenues spent by the City for a lawful purpose pursuant to the last sentence of Section 5.01(A)(1) shall no longer be subject to the lien of this Indenture.

(3) All Bonds and Parity Obligations shall be of equal rank with each other without preference, priority, or distinction of any Bonds and Parity Obligations over any other Bonds and Parity Obligations. All Subordinate Obligations shall be of equal rank with each other without preference, priority, or distinction of any Subordinate Obligations over any other Subordinate Obligations. All Fee and Expense Obligations shall be of equal rank with each other without preference, priority, or distinction of any Fee and Expense Obligations over any other Fee and Expense Obligations.

(4) The Trustee shall deposit in a trust fund, designated as the “Revenue Fund,” which fund the Trustee shall establish and maintain, all amounts received by it from the City pursuant to Section 5.01(A)(1), when and as received by the Trustee. Subject to Section 5.10(E), all Swap Revenues and Subsidy Payments received by the Trustee shall also be deposited in the Revenue Fund.

(5) The Trustee shall hold all funds and accounts established hereunder and required to be held by the Trustee (other than the Rebate Fund, all Letter of Credit Funds, and all Purchase Funds), and all investments, money, instruments, and other property credited thereto or on deposit therein, in trust for the benefit of the holders of the Bonds, the Parity Obligations, the Subordinate Obligations, and the Fee and Expense Obligations as their interests may appear hereunder. Such property shall be applied solely as provided in this Indenture.

(B) The Bonds are limited obligations of the City and are payable as to both principal or purchase price and interest, and any premium upon redemption thereof, exclusively from the Trust Estate pledged hereunder and as provided herein.

SECTION 5.02. Allocation of Moneys in the Revenue Fund.

(A) So long as any Bonds are Outstanding or Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or any other amounts payable hereunder remain unpaid, the Trustee shall set aside on each date set forth in this Section 5.02, the moneys in the Revenue Fund in the following funds (each of which the Trustee shall establish, maintain, and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations) in the

following amounts and in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of moneys in the Revenue Fund sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that (i) the Trustee may set aside or transfer, on a parity with such deposits, amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee pursuant to Section 3.05 (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations); (ii) payments on Interest Rate Swap Agreements that constitute Parity Obligations shall be payable from the Interest Fund and the required deposits below shall be adjusted to include payments on such Interest Rate Swap Agreements in accordance with Section 5.10 (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations); and (iii) in the event any of the deposits or transfers requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments shall be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available moneys:

(1) First Priority – Interest Fund. No later than the Business Day prior to each Interest Payment Date, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to the aggregate amount of interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest on the Interest Payment Date). No deposit need be made into the Interest Fund with respect to any Bonds if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Date, and on each Interest Payment Date any excess amounts in the Interest Fund not needed to pay interest on such Interest Payment Date shall be transferred to the Revenue Fund (excepting any moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future Interest Payment Dates following such Interest Payment Date).

If Liquidity Facility Bonds are outstanding at the time of any required deposits to the Interest Fund, such deposits shall take into account and include the Liquidity Facility Rate on Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds.

(2) Second Priority – Principal Fund; Sinking Accounts. No later than the Business Day prior to each Principal Payment Date, the Trustee shall set aside in the Principal Fund an amount equal to (a) the aggregate amount of Bond Obligation becoming due and payable on such Principal Payment Date on the Outstanding Serial Bonds of all Series plus (b) the aggregate of the Mandatory Sinking Account Payments to be paid on such Principal Payment Date into the Sinking Accounts for the Term Bonds of all Series. If, however, the City certifies to the Trustee that any principal payments are expected to be paid from amounts on deposit in a Reserve Fund that would be in excess

of the Bond Reserve Requirement applicable to such Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with Mandatory Sinking Account Payments shall be made without priority of any payment over any other such payment.

In the event that the moneys in the Revenue Fund shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any Principal Payment Date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series on such Principal Payment Date plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as the amount of Bond Obligation on such Serial Bonds and the Bond Obligation of and redemption premium on such Term Bonds shall bear to each other. In the event that the moneys in the Revenue Fund shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account on such date bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts on such date.

No deposit need be made into the Principal Fund on any date so long as there shall be in such fund (a) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued hereunder and then Outstanding and maturing by their terms on the immediately succeeding Principal Payment Date plus (b) the aggregate of all Mandatory Sinking Account Payments required to be made on such Principal Payment Date. On each Principal Payment Date or as soon as practicable thereafter, any excess amounts in the Principal Fund not needed to pay Bond Obligation or Mandatory Sinking Account Payments on such Principal Payment Date shall be transferred to the Revenue Fund.

If any Liquidity Facility Bonds are outstanding at the time of any required deposits to the Principal Fund, such deposits shall take into account and include any amortizations or redemptions of any Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds. For purposes of the provisions above relating to the Principal Fund, Liquidity Facility Bonds shall be treated as Serial Bonds with maturity dates on the payment dates of any amortization or redemptions.

(3) Third Priority – Reserve Funds. Upon the occurrence of any deficiency in any Reserve Fund, the Trustee shall make such deposit to such Reserve Fund, as is required pursuant to Section 5.05(F), each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

(4) Fourth Priority – Subordinate Obligations Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Subordinate Obligations Fund.” After the transfers described in Section 5.02(A)(1), 5.02(A)(2) and 5.02(A)(3) that are required to be made on a given date have been made, the Trustee shall deposit in the Subordinate Obligations Fund such amount as the City shall specify in

writing is necessary to make payments due and payable on such date with respect to Subordinate Obligations then outstanding.

(5) Fifth Priority – Fees and Expenses Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Fees and Expenses Fund.” After the transfers described in Sections 5.02(A)(1), 5.02(A)(2), 5.02(A)(3), and 5.02(A)(4) that are required to be made on a given date have been made, the Trustee shall deposit in the Fees and Expenses Fund the amounts necessary for payment of Fee and Expense Obligations owing on such date.

(B) If no Event of Default has occurred and is continuing and all payments then due and payable by the City pursuant to this Indenture have been paid, then, except as the City shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, amounts remaining in the Revenue Fund after all transfers currently required to be made by paragraphs 5.02(A)(1), 5.02(A)(2), 5.02(A)(3), 5.02(A)(4), and 5.02(A)(5), and the proceeds thereof, shall be transferred to the City on the same Business Day or as soon as practicable thereafter. The City may use and apply such amounts when received by it for any lawful purpose of the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

SECTION 5.03. Application of Interest Fund. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purposes of (A) paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture) or reimbursing the Credit Enhancement Provider for a drawing for such purposes made on a Credit Enhancement that is an irrevocable, direct-pay letter of credit; and (B) making periodic payments on Interest Rate Swap Agreements, as provided in Section 5.10. If amounts on deposit in the Interest Fund shall not be sufficient to pay in full all amounts payable from the Interest Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Interest Fund and payments then due).

SECTION 5.04. Application of Principal Fund.

(A) All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided herein, or for reimbursing the Credit Provider for a drawing for such purposes made on a Credit Enhancement that is an irrevocable, direct-pay letter of credit. If amounts on deposit in the Principal Fund shall not be sufficient to pay in full all amounts payable from the Principal Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Principal Fund and payments then due).

(B) The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity, designated as the “_____ Sinking Account,” inserting therein the Series and maturity designation of such Bonds. Not later than the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the

Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in this Indenture or the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the City, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding the Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during that period and prior to giving notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to the Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce the Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to this Section 5.04(B) shall be cancelled by the Trustee and destroyed by the Trustee, and a certificate of destruction shall be delivered to the City by the Trustee. Any amounts remaining in a Sinking Account on September 1 of each year following the redemption as of such date of the Term Bonds for which such account was established shall be withdrawn by the Trustee and transferred as soon as practicable to the Revenue Fund. All Term Bonds purchased from a Sinking Account or deposited by the City with the Trustee in a 12-month period ending September 1 (or in a six-month period ending March 1 or September 1 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next March 1 or September 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City.

SECTION 5.05. Establishment, Funding and Application of Reserve Funds.

(A) The Trustee shall establish, maintain, and hold in trust the Bond Reserve Fund for the benefit of the Holders of Participating Bonds. The Bond Reserve Fund shall secure all Participating Bonds, and the City shall specify in the Supplemental Indenture relating to such Series of Bonds whether the Bonds of such Series constitute Participating Bonds. The Bond Reserve Fund shall comply with the requirements set forth in Sections 5.05(C) through 5.05(G).

(B) The City may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Series Reserve Fund as security for a Series of Bonds. Any Bond Series Reserve Fund so established by the City shall secure one or more Series of Bonds as the City shall determine and shall specify in the Supplemental Indenture establishing such Bond Series Reserve Fund. Any Bond Series Reserve Fund established by the City shall be held by the Trustee and shall comply with the requirements set forth in Sections 5.05 (C) through 5.05(G).

(C) In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in a Reserve Fund (which, subject to Section 6.08, shall be transferred by the Trustee to the City), or in substitution of any Reserve Facility that is part of the Bond Reserve Requirement relating to one or more Series of Bonds, the City may, at any time and from time to time, deliver to the Trustee an irrevocable, direct-pay letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of Moody's and Standard & Poor's, in an amount, that, together with cash, Investment Securities, or other Reserve Facilities (as described in Section 5.05(D)) then on deposit in a Reserve Fund, will equal the applicable Bond Reserve Requirement. Such letter of credit shall have a term no less than three years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and shall provide by its terms that it may be drawn upon as provided in this Section 5.05. At least one year prior to the stated expiration of such letter of credit, the City shall deliver one of the following to the Trustee: (1) a replacement letter of credit; (2) an extension of the letter of credit for at least one additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained; or (3) a Reserve Facility satisfying the requirements of Section 5.05(D). Upon delivery of such replacement letter of credit, extension or replacement Reserve Facility, the Trustee shall deliver the then-effective letter of credit to or upon the Order of the City. If the City shall fail to deposit a replacement letter of credit, extension or replacement Reserve Facility with the Trustee, the City shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the applicable Bond Reserve Requirement will be on deposit in the related Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the applicable Bond Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in a Reserve Fund one week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in such Reserve Fund.

(D) In lieu of making a Bond Reserve Requirement deposit in cash or in replacement of moneys then on deposit in a Reserve Fund (which, subject to Section 6.08, shall be transferred by the Trustee to the City) or in substitution of any Reserve Facility that is part of a Bond Reserve Requirement for any Bonds, the City may, at any time and from time to time, deliver to the Trustee a surety bond or an insurance policy in an amount that, together with moneys, Investment Securities, or other Reserve Facilities then on deposit in a Reserve Fund, is no less than the applicable Bond Reserve Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations are rated at the time of delivery in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds in connection with which such surety bond or insurance policy is obtained and shall be non-

cancellable. In the event that such surety bond or insurance policy for any reason lapses or expires, the City shall immediately implement clause (1) or (3) in Section 5.05(C) or make the 12 equal monthly deposits to the related Reserve Fund so that such Reserve Fund is replenished to the required level after a year.

(E) Subject to Section 5.05(G), all amounts in the Reserve Fund (including all amounts that may be obtained from a Reserve Facility on deposit in the Reserve Fund) shall be used and withdrawn by the Trustee, as follows:

(1) for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which the Reserve Fund relates; or

(2) together with any other moneys available therefor,

(a) for the payment or redemption of all Bonds then Outstanding of the Series to which the Reserve Fund relates; or

(b) for the defeasance or redemption of all or a portion of the Bonds then Outstanding of the Series to which the Reserve Fund relates, provided, however, that if funds on deposit in the Reserve Fund are applied to the defeasance or redemption of a portion of the Series of Bonds to which the Reserve Fund relates, the amount on deposit in the Reserve Fund immediately subsequent to such partial defeasance or redemption shall equal the Bond Reserve Requirement applicable to all Bonds of such Series Outstanding immediately subsequent to such partial defeasance or redemption; or

(c) for the payment of the final principal and interest payment of the Bonds of such Series.

Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee shall apply amounts held in cash or Investment Securities in the Reserve Fund prior to applying amounts held in the form of Reserve Facilities in the Reserve Fund. If the Trustee has applied all cash and Investment Securities and more than one Reserve Facility is being held on deposit in the Reserve Fund, then the Trustee shall, on a pro rata basis with respect to the portion of such Reserve Fund held in the form of Reserve Facilities (calculated by reference to the maximum amount of each such Reserve Facility), draw under each Reserve Facility issued with respect to such Reserve Fund, in a timely manner, and pursuant to the terms of such Reserve Facility, to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds of the Series to which such Reserve Fund relates when due. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to the terms of, and if so provided by, the terms of the Reserve Facility, if any, enhancing the Bonds of such Series, shall so notify the City thereof and draw on such Reserve Facility to the lesser of the

extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal and interest so recovered.

(F) The Trustee shall notify the City of any deficiency in the Reserve Fund (1) due to a withdrawal from the Reserve Fund for purposes of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which the Reserve Fund relates or (2) resulting from a valuation of Investment Securities held on deposit in the Reserve Fund pursuant to Section 5.11 and shall request that the City replenish such deficiency or repay any and all obligations due and payable under the terms of any Reserve Facility that is part of any Bond Reserve Requirement. Upon receipt of such notification from the Trustee, the City shall transfer to the Trustee, for deposit in the applicable Reserve Fund, System Net Revenues in an amount equal to one-twelfth of the aggregate amount of each unreplenished prior withdrawal from the Reserve Fund or decrease resulting from a valuation pursuant to Section 5.11 and shall further transfer to the Trustee, for transfer by the Trustee to each Reserve Facility Provider providing a Reserve Facility satisfying a portion of the Bond Reserve Requirement relating to the Bonds of the Series to which the Reserve Fund relates, System Net Revenues in an amount equal to one-twelfth of the aggregate amount of any unreplenished prior withdrawal on such Reserve Facility, such amount to be transferred by the Trustee as promptly as possible after receipt of the System Net Revenues from the City each month, commencing with the month following the City's receipt of notification from the Trustee of withdrawal or decrease resulting from a valuation, as applicable, until the balance on deposit in the Reserve Fund is at least equal to the applicable Bond Reserve Requirement.

(G) Unless the City shall otherwise direct in writing, any amounts in the Reserve Fund in excess of the applicable Bond Reserve Requirement shall be transferred by the Trustee to the Revenue Fund on the Business Day following September 1 of each year; provided that such amounts shall be transferred only from available sources held in the Reserve Fund other than any Reserve Facility. In addition, amounts on deposit in the Reserve Fund shall be transferred by the Trustee to the City (1) upon the defeasance, retirement or refunding of Bonds of the Series to which such Reserve Fund relates provided that such transfer shall not be made unless (a) immediately thereafter all of the Bonds to which the Reserve Fund relates shall be deemed to have been paid pursuant to Article X or (b) the amount remaining in the Reserve Fund after such transfer shall not be less than the applicable Bond Reserve Requirement; or (2) upon the replacement of cash on deposit in the Reserve Fund with one or more Reserve Facilities in accordance with Section 5.05(C) or Section 5.05(D), subject in the case of both clauses (1) and (2) to the requirements of the applicable Tax Certificate.

SECTION 5.06. Application of Subordinate Obligations Fund. All moneys in the Subordinate Obligations Fund shall be used and withdrawn by the Trustee to pay Subordinate Obligations as such amounts become due and payable. If amounts on deposit in the Subordinate Obligations Fund shall not be sufficient to pay in full all amounts payable from the Subordinate Obligations Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Subordinate Obligations Fund and payments then due).

SECTION 5.07. Application of Fees and Expenses Fund. All amounts in the Fees and Expenses Fund shall be used and withdrawn by the Trustee solely for the purpose of paying fees, expenses, and similar charges owed by the City in connection with the Bonds or any Parity

Obligations or Subordinate Obligations (including termination payments on any Interest Rate Swap Agreement) as such amounts shall become due and payable. If amounts on deposit in the Fees and Expenses Fund shall not be sufficient to pay in full all amounts payable from the Fees and Expenses Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Fees and Expenses Fund and payments then due).

SECTION 5.08. Application of Redemption Fund. The Trustee shall establish, maintain, and hold in trust a special fund designated as the “Redemption Fund.” All moneys deposited by the City with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the City, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series and maturity as shall be specified by the City in a Request to the Trustee, in the manner, at the times, and upon the terms and conditions specified in the Supplemental Indenture pursuant to which the Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price (exclusive of any accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

SECTION 5.09. Rebate Fund.

(A) Upon receipt of funds to be applied to the Rebate Requirement, the Trustee shall establish and maintain separately from any other fund established and maintained hereunder, a fund designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the City. Subject to the transfer provisions provided in Section 5.09(C), all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America, and neither the Trustee nor any Holder nor any other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Indenture and by the applicable Tax Certificate. The City hereby covenants to comply with the directions contained in each Tax Certificate, and the Trustee hereby covenants to comply with all written instructions of the City delivered to the Trustee pursuant to each Tax Certificate (which instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto). The Trustee shall be deemed conclusively to have complied with the provisions of this Section 5.09(A) if it follows such instructions of the City, and the Trustee shall have no liability or responsibility to enforce compliance by the City with the terms of any Tax Certificate or to make computations in connection therewith.

(B) Pursuant to each Tax Certificate, an amount shall be deposited in the Rebate Fund by the City so that the balance of the amount on deposit thereto shall be equal to the Rebate

Requirement applicable to the Series of Bonds to which such Tax Certificate relates. Computations of each Rebate Requirement shall be furnished by or on behalf of the City to the Trustee in accordance with the applicable Tax Certificate.

(C) The Trustee shall invest all amounts held in the Rebate Fund, pursuant to written instructions of the City, in Investment Securities, subject to the restrictions set forth in the applicable Tax Certificate. Money shall not be transferred from the Rebate Fund except as provided in Section 5.09(D).

(D) Upon receipt of Rebate Instructions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States of America, as so directed. In addition, if the Rebate Instructions so direct, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Rebate Instructions. Any funds remaining in the Rebate Fund after redemption and payment of all of a Series of Bonds and payment and satisfaction of any Rebate Requirement applicable to such Series of Bonds shall be withdrawn and remitted to the City in accordance with a Request of the City.

(E) Notwithstanding any other provision of this Indenture, including in particular Article X, the obligation to remit the Rebate Requirement applicable to each Series of Bonds to the United States of America and to comply with all other requirements of this Section and each Tax Certificate shall survive the defeasance or payment in full of the Bonds.

SECTION 5.10. Payment Provisions Applicable to Interest Rate Swap Agreements.

(A) Each Interest Rate Swap Agreement shall require that all payments by the Counterparty thereunder be paid directly to the Trustee. All such payments shall be deposited by the Trustee in the Revenue Fund.

(B) Payments on Interest Rate Swap Agreements that are payable as Parity Obligations shall be payable by the Trustee to the Counterparty from the Interest Fund.

(C) Payments on Interest Rate Swap Agreements that are payable as Subordinate Obligations shall be payable by the Trustee to the Counterparty from the Subordinate Obligations Fund.

(D) Payments on Interest Rate Swap Agreements that are payable as Fee and Expense Obligations shall be payable by the Trustee to the Counterparty from the Fees and Expenses Fund.

(E) Notwithstanding Section 5.01(A)(4) and Section 5.10(A), the City may apply termination payments received from any Counterparty to the defeasance or redemption of all or a portion of the Obligations then outstanding.

SECTION 5.11. Investment in Funds and Accounts.

(A) All moneys in any of the funds and accounts held by the Trustee or established pursuant to this Indenture (including any Project Fund held by the Trustee) shall be invested, as directed by the City, solely in Investment Securities. As directed by the City in writing or

electronic means or by a telephone call promptly confirmed in writing, all Investment Securities shall be acquired subject to the limitations set forth in Section 6.08, the limitations as to maturities in this Section 5.11, and such additional limitations or requirements consistent with the foregoing as may be established by Request of the City. If and to the extent the Trustee does not receive investment instructions from the City with respect to the moneys in the funds and accounts held by the Trustee pursuant to this Indenture, such moneys shall be invested in a money market fund rated at the time of investment “AAAm” or “AAAm-G” or better by Standard & Poor’s, including funds for which the Trustee or an affiliate provides investment advice or other services, and the Trustee shall thereupon request investment instructions from the City for such moneys.

(B) Moneys in any Reserve Fund shall be invested in Investment Securities maturing in not more than five years or having a put option or demand option providing funds upon request for the purpose of payment of the Bonds to which such Reserve Fund relates as provided herein. Moneys in the remaining funds and accounts shall be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

(C) Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds or a Request of the City delivered to the Trustee, all interest, profits, and other income received from the investment of moneys in—

(1) the Interest Fund representing accrued interest or capitalized interest shall be retained in the Interest Fund;

(2) the Reserve Fund shall be retained in such Reserve Fund to the extent of any deficiency therein, and otherwise shall, at the direction of the City, be transferred to the Project Fund or Project Funds established in connection with the Series of Bonds to which the Reserve Fund relates, if any, or to the Revenue Fund;

(3) a Costs of Issuance Fund shall be retained in such Costs of Issuance Fund until such time as such Costs of Issuance Fund is closed, and any earnings received on a Costs of Issuance Fund subsequent to the closure of such Costs of Issuance Fund shall be transferred to the Revenue Fund;

(4) a Project Fund shall be retained in such Project Fund, unless the City shall direct that such earnings be transferred to the Rebate Fund or such other fund as may be specified by the City;

(5) the Rebate Fund shall be retained in the Rebate Fund, except as otherwise provided in Section 5.09;

(6) any Letter of Credit Fund or Purchase Fund shall be retained in such Letter of Credit Fund or Purchase Fund, as applicable; and

(7) any other fund or account shall be transferred to the Revenue Fund.

Notwithstanding anything to the contrary contained in this Section 5.11(C), an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

(D) All Investment Securities credited to any Reserve Fund shall be valued (at market value) as of September 1 of each year (or the next succeeding Business Day if such day is not a Business Day), such market value to be determined by the Trustee in the manner then currently employed by the Trustee or in any other manner consistent with corporate trust industry standards. Notwithstanding anything to the contrary herein, in making any valuations of investments hereunder, the Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system.

(E) The Trustee shall not commingle any of the funds or accounts established pursuant to this Indenture and all funds or accounts held by the Trustee hereunder shall be accounted for separately as required by this Indenture. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee may sell at the best price obtainable consistent with the Trustee's customary trading practice, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited. The Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance herewith.

(F) The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee hereunder.

ARTICLE VI

COVENANTS OF THE CITY

SECTION 6.01. Punctual Payments. The City will punctually pay or cause to be paid the principal, purchase price, or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all Mandatory Sinking Account Payments, but in each case only out of the Trust Estate as provided in this Indenture. The City will punctually pay or cause to be paid all Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations.

SECTION 6.02. Extension of Payment of Bonds. The City will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any Bonds or claims for interest by the purchase or funding of such Bonds or claims for interest 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 6.02 shall be deemed to limit the right of the City 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 Bonds.

SECTION 6.03. Waiver of Laws. The City will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the City to the extent permitted by law.

SECTION 6.04. Further Assurances. The City will make, execute, and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Holders of the Bonds and the holders of any Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations of the rights and benefits provided in this Indenture.

SECTION 6.05. Against Encumbrances. The City will not create any pledge, lien, or charge upon the Trust Estate or any portion thereof (including the System Net Revenues) having priority over or having parity with the lien of this Indenture.

SECTION 6.06. Accounting Records and Financial Statements.

(A) The City will at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all transactions relating to the System Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances but the Trustee shall have no duty to inspect such books of record and account.

(B) The City will furnish the Trustee, before the end of the ninth month after the close of each Fiscal Year, the financial statements of the City (which shall include the Wastewater Fund) for such Fiscal Year, together with the report of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards. Thereafter, a copy of such financial statements will be furnished to any Holder upon written request to the City, which copy of the financial statements may, at the sole discretion of the City, be provided by means of posting such financial statements on an internet site that provides access to the Holders.

SECTION 6.07. Amount of Rates, Fees and Charges; Rate Stabilization Fund.

(A) The City will at all times during each Fiscal Year fix, prescribe, and collect rates, fees, and charges for the Wastewater Service that are reasonably estimated to yield System Net Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year.

In fixing and prescribing such rates, fees, and charges, the City may make reasonable assumptions concerning contingencies that may affect System Revenues and the timing and amount of payments on Bonds, Parity Obligations, Subordinate Obligations, and any other obligations of the City that may become due and payable from System Revenues in such Fiscal Year. The City may make adjustments from time to time in such rates, fees, and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the System Net Revenues from such reduced rates, fees, and charges will at all times be sufficient to meet the requirements of this Section 6.07(A).

(B) The City may establish and maintain on the City's books a fund to be known as the "Rate Stabilization Fund." On the date of issuance of the Series 2013 Bonds, the City shall allocate \$_____ of amounts then accounted for in the Wastewater Fund to the Rate Stabilization Fund. As long as no Event of Default has occurred and is continuing and the City is in compliance with Section 6.07(A), from time to time thereafter, the City may allocate to the Rate Stabilization Fund from current System Revenues such amounts as the City may reasonably determine, and the amount of available current System Revenues shall be reduced by the amount so allocated. The City may only allocate amounts accounted for in the Rate Stabilization Fund to the Wastewater Fund for inclusion in System Revenues for any Fiscal Year. Allocations to or from the Rate Stabilization Fund for each Fiscal Year shall be made before the end of the ninth month after the close of each Fiscal Year. All interest or other earnings upon amounts allocated to the Rate Stabilization Fund may be allocated to the Wastewater Fund and accounted for as System Revenues.

SECTION 6.08. Tax Covenants.

(A) The City covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the City may exclude the application of the covenants contained in this Section 6.08 and Section 5.09 to such Series of Bonds. Without limiting generality of the foregoing, the City agrees to comply with the Tax Certificate relating to each Series of Bonds. In the event that at any time the City is of the opinion that for purposes of this Section 6.08 it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under this Indenture, the City shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(B) Without limiting the generality of Section 6.08(A), the City agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The City specifically covenants to pay or cause to be paid to the United States of America the Rebate Requirement with respect to each Series of Bonds at the times and in the amounts determined under and as described in the Tax Certificate executed and delivered in connection with such Series of Bonds.

(C) Notwithstanding any provision of this Section 6.08, Section 5.09, or any Tax Certificate, if the City shall receive an Opinion of Bond Counsel to the effect that any action required under this Section 6.08, Section 5.09, or any Tax Certificate is no longer required, or to

the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the City and the Trustee may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent.

(D) Notwithstanding any provisions of this Indenture, including particularly Article X, the covenants and obligations set forth in this Section 6.08 shall survive the defeasance of the Bonds or any Series thereof.

SECTION 6.09. Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the City to comply with the provisions of any Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least 25% aggregate principal amount of the applicable Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense, or additional charges and fees of the Trustee whatsoever, including reasonable fees and expenses of its attorneys), or any Holder or beneficial owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Section 6.09.

SECTION 6.10. Maintenance and Operation of the Wastewater System. The City will cause the Wastewater System to be maintained in good repair, working order, and condition at all times and will continuously operate the Wastewater System in an efficient and economical manner so that all lawful orders of any governmental agency or authority having jurisdiction in the premises shall be complied with, but the City shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith or the failure to comply will not have a material adverse effect on the operation or financial condition of the Wastewater System. The City further covenants and agrees that it will at all times maintain and comply with all necessary permits and licenses issued by governmental authorities having jurisdiction unless the lawful requirement thereof is being contested in good faith or the failure to comply will not have a material adverse effect on the operation or financial condition of the Wastewater System.

SECTION 6.11. Payment of Taxes and Charges. The City will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments, or other governmental charges lawfully imposed upon the Wastewater System or upon any part of its operations, or upon the System Revenues, when the same shall become due, as well as any lawful claim for labor, materials, or supplies which, if unpaid, might by law become a lien or charge upon the Wastewater System or the System Revenues, or which might impair the security of the Bonds or any Parity Obligations, Subordinate Obligations, or Fee and Expense Obligations. Notwithstanding the foregoing, the City need not pay or discharge any tax, assessment, or other governmental charge, or any claim for labor, material, or supplies, if and so long as the City shall contest the validity or application thereof in good faith.

SECTION 6.12. Insurance.

(A) The City shall procure or provide and maintain, at all times while any of the Bonds remain Outstanding or any Parity Obligations, Subordinate Obligations or Fee and Expense Obligations remain unpaid, insurance or self-insurance against such risks as are usually insured against by other providers of wastewater services similar to those provided by the City through the Wastewater System. Such insurance or self-insurance shall be in an adequate amount as to the risk insured against as determined by the City.

(B) Any self-insurance shall be established in accordance with applicable law and shall include reserves or reinsurance in amounts the City determines to be adequate to protect against risks assumed under such self-insurance including any potential retained liability in the event of the termination of such self-insurance.

SECTION 6.13. Sale of Wastewater System. The Wastewater System shall not be sold or otherwise disposed of as a whole or substantially as a whole.

SECTION 6.14. Eminent Domain and Insurance Proceeds. If all or any part of the Wastewater System shall be taken by eminent domain proceedings, or if the City receives any insurance proceeds (excluding any rental interruption insurance) resulting from a casualty loss to the Wastewater System, the net proceeds of any eminent domain award or insurance proceeds (excluding any rental interruption insurance) after paying all expenses (including attorney's fees) incurred in the collection of such award or proceeds shall, at the option of the City, be applied either to (A) in the following order of priority, the prepayment of (1) Outstanding Bonds and outstanding Parity Obligations in accordance with their respective terms (2) outstanding Subordinate Obligations, and (3) outstanding Fee and Expense Obligations or (B) to acquire and construct additions, betterments or improvements to the Wastewater System.

SECTION 6.15. Separate Utility Systems. The City may create, acquire, construct, finance, own, and operate one or more additional systems not constituting any part of the then-existing Wastewater System for wastewater service or other commodity or service, and the revenues of that separate utility system shall not be included in the System Revenues and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand such separate utility system. The System Net Revenues shall not be pledged by the City to the payment of any obligations of a separate utility system except in accordance with the other provisions of this Indenture.

SECTION 6.16. Interest Rate Swap Agreements. Except for the obligation of the City to make regularly scheduled net swap payments under any Interest Rate Swap Agreement relating to Bonds or Parity Obligations, the City shall not secure any obligations of the City under any Interest Rate Swap Agreement as Parity Obligations, including any obligations of the City to make termination payments or to post collateral under any Interest Rate Swap Agreement.

SECTION 6.17. Encumbrance of Wastewater System Components By General Fund Lease Obligations. The City shall not encumber any components of the Wastewater System under a City General Fund lease except for the components of the Wastewater System

that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease; provided, that nothing contained in this Section 6.17 prohibits the City from (1) improving, making additions to, rehabilitating or replacing components of the Wastewater System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease; or (2) incurring additional obligations under any City General Fund lease that, as of the date of issuance of the Series 2013 Bonds, encumbers components of the Wastewater System.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. Events of Default. The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration, or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(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) if the City shall fail to observe or perform any covenant, condition, agreement, or provision in this Indenture on its part to be observed or performed, other than as referred to in Section 7.01(A) or 7.01(B), for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee or by any Credit Enhancement Provider; except that, if such failure can be remedied but not within such 60-day period and if the City has taken all action reasonably possible to remedy such failure within such 60-day period, such failure shall not become an Event of Default for so long as the City shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(D) if any payment default shall exist under any agreement governing any Parity Obligations, and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(E) if the City files a voluntary bankruptcy or commences any similar proceeding 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;

(F) if a court of competent jurisdiction shall enter an order, judgment, or decree declaring the City insolvent, or adjudging it bankrupt, or ordering relief under any applicable bankruptcy or insolvency law, or appointing a trustee or receiver of the City, or approving a bankruptcy petition filed against 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 60 days from the date of the entry thereof;

(G) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the System Revenues, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control; or

(H) any Event of Default designated as such in a Supplemental Indenture.

SECTION 7.02. Application of the System Net Revenues and Other Funds After Default; No Acceleration.

(A) If an Event of Default shall occur and be continuing, the City shall immediately transfer to the Trustee all System Net Revenues, Swap Revenues, and Subsidy Payments held by it, and the Trustee shall apply all System Net Revenues, Swap Revenues, Subsidy Payments, and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture (excluding the Rebate Fund, any Letter of Credit Fund, and any Purchase Fund, and except as otherwise provided in this Indenture) as follows and in the following order:

(1) first, to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under this Indenture;

(2) second, to the payment of the whole amount of Bond Obligation then due on the Bonds and amounts then due on Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Indenture (including Section 9.02), with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and all amounts then due on Parity Obligations which shall have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and amounts then due on Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) or other amounts due on such date to the persons entitled thereto, without any discrimination or preference;

(3) third, to the payment of Subordinate Obligations, provided that if the amount available shall not be sufficient to pay in full all Subordinate Obligations due on

any date, then to the payment thereof ratably, according to the amounts due on such date to the persons entitled thereto, without any discrimination or preference;

(4) fourth, to the payment of Fee and Expense Obligations, provided that if the amount available shall not be sufficient to pay in full all Fee and Expense Obligations due on any date, then to the payment thereof ratably, according to the amounts due on such date to the persons entitled thereto, without any discrimination or preference; and

(5) fifth, to the payment of all other obligations payable hereunder.

(B) Notwithstanding anything to the contrary contained herein, in no event are the Bonds subject to acceleration if an Event of Default occurs and is continuing except that Liquidity Facility Bonds are subject to acceleration as set forth in the Liquidity Facility.

SECTION 7.03. Trustee to Represent Bondholders. The Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, this Indenture, and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may proceed, and upon the written request of the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus, or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under this Indenture or by law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Trust Estate, pending such proceedings; provided, however, that, with respect to any Series of Bonds for which a Credit Enhancement has been provided, and unless otherwise provided in the applicable Supplemental Indenture, the Trustee may only act with the consent of the Credit Enhancement Provider providing such Credit Enhancement. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action, or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Indenture (including Section 7.05).

SECTION 7.04. Bondholders' Direction of Proceedings. Notwithstanding anything in this Indenture to the contrary (except provisions relating to the rights of a Credit Enhancement Provider to direct proceedings as set forth in Section 7.10), the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting

all remedial proceedings taken by the Trustee hereunder, provided (A) that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, (B) that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and (C) that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Obligations not parties to such direction.

SECTION 7.05. Limitation on Bondholders' Right to Sue.

(A) No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture and any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; provided, however, that, to the extent provided in the applicable Supplemental Indenture, the written consent of a Credit Enhancement Provider providing a Credit Enhancement with respect to a Series of Bonds shall be required if the Credit Enhancement with respect to such Series of Bonds is in full force and effect and if the Credit Enhancement Provider providing such Credit Enhancement is not then failing to make a payment as required in connection therewith.

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

SECTION 7.06. Absolute Obligation of the City. Nothing in Section 7.05 or in any other provision of this Indenture or in the Bonds (A) shall affect or impair the obligation of the City, which is absolute and unconditional, to pay (1) the principal, purchase price, or Redemption Price of and interest on the Bonds to the Holders of the Bonds at their dates of maturity, or upon call for redemption, as herein provided or (2) other amounts payable under this Indenture, but only out of the Trust Estate; or (B) affect or impair the right of such Holders, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

SECTION 7.07. Termination of Proceedings. In case any proceedings taken by the Trustee, any Credit Enhancement Provider, or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, any Credit Enhancement Provider, or the Bondholders, then in every such case the City, the Trustee, each Credit Enhancement Provider, and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers, and duties of the City, the Trustee, each Credit Enhancement Provider, and the Bondholders shall continue as though no such proceedings had been taken.

SECTION 7.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee, to any Credit Enhancement Provider, or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.09. No Waiver of Default. No delay or omission of the Trustee, any Credit Enhancement Provider, or any Holder of the Bonds to exercise any right or power arising upon the occurrence of 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 given by this Indenture to the Trustee, to any Credit Enhancement Provider, or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient. No waiver of any Event of Default hereunder, whether by Trustee or by any Credit Enhancement Provider or by the Bondholders, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

SECTION 7.10. Credit Enhancement Provider Directs Remedies Upon Event of Default. To the extent provided in the applicable Supplemental Indenture, upon the occurrence and continuance of an Event of Default as defined herein, the Credit Enhancement Provider then providing Credit Enhancement for any Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds enhanced by such Credit Enhancement, provided that the Credit Enhancement Provider's consent shall not be required as otherwise provided herein if such Credit Enhancement Provider is in default of any of its payment obligations as set forth in the Credit Enhancement provided by such Credit Enhancement Provider.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. Appointment, Duties Immunities and Liabilities of Trustee.

(A) U.S. Bank National Association is hereby appointed as Trustee under this Indenture and hereby accepts the trust imposed upon it as Trustee hereunder and to perform all the functions and duties of the Trustee hereunder, subject to the terms and conditions set forth in this Indenture. The Trustee shall, prior to an Event of Default, and after the curing or waiver 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 shall be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default that has not been cured or waived, exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(B) The City may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee—

(1) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding (or their attorneys duly authorized in writing), or

(2) if at any time the Trustee shall cease to be eligible in accordance with Section 8.01(E), or shall become incapable of acting, or

(3) if at any time the Trustee shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation, or liquidation,

in each case by giving written notice of such removal to the Trustee and each Credit Enhancement Provider then providing a Credit Enhancement for any Series of Bonds, and thereupon shall appoint a successor Trustee by an instrument in writing.

(C) The Trustee may at any time resign by giving written notice of such resignation to the City and each Credit Enhancement Provider then providing credit enhancement for any Series of Bonds and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing.

(D) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself and all other Bondholders) 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. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the City, to each Credit Enhancement Provider then enhancing any Series of Bonds, and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed, or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties, and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein, subject to the following: at the Request of the City or the request of the successor Trustee, such predecessor

Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title, and interest of such predecessor Trustee in and to any property held by it under this Indenture. The predecessor Trustee shall promptly pay over, transfer, assign, and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the City shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties, and obligations. Upon acceptance of appointment by a successor Trustee as provided in this Section 8.01(D), the City shall give notice of the succession of such Trustee to the trusts hereunder by mail to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the City fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the City.

(E) Any Trustee appointed under the provisions of this Section 8.01 in succession to the Trustee shall be a trust company, national banking association or bank having the powers of a trust company having (or, if such trust company, national banking association or bank is a member of a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. If such trust company, national banking association, bank or bank holding company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section 8.01(E) the combined capital and surplus of such trust company, national banking association, bank or bank holding company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 8.01(E), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

SECTION 8.02. Accounting Records and Monthly Statements. The Trustee shall keep proper books of record and accounts containing correct entries of all transactions relating to the receipt, investment, disbursement, allocation, and application of the moneys related to the Bonds, including proceeds of each Series of Bonds and moneys derived from, pledged to, or to be used to make payments on each Series of Bonds. Such records shall specify the account or fund to which each deposit and each investment (or portion thereof) held by the Trustee is allocated and shall set forth, in the case of each investment security, (A) its purchase price; (B) identifying information, including par amount, coupon rate, and payment dates; (C) the amount received at maturity or its sale price, as the case may be, including accrued interest; (D) the amounts and dates of any payments made with respect thereto; and (E) the dates of acquisition and disposition or maturity. The Trustee shall furnish the City with a monthly statement which shall include a summary of all deposits and all investment transactions related to each Series of Bonds then Outstanding, such statement to be provided to the City no later than the fifth Business Day of the month following the month to which such statement relates, the first such monthly statement to be provided by the fifth Business Day of the month immediately following the month in which the Series 2013 Bonds are delivered by the Trustee pursuant to the provisions of this Indenture.

SECTION 8.03. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which the Trustee may be consolidated; any company resulting from any merger, conversion, or consolidation to which the Trustee shall be a party; and any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding, provided such company is eligible under Section 8.01(E).

SECTION 8.04. Liability of Trustee.

(A) The recitals of facts herein and in the Bonds contained shall be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same (other than the certificate of authentication of the Trustee on each Bond) and makes no representations as to the validity or sufficiency of this Indenture, or of the Bonds; as to the sufficiency of the Trust Estate or the priority of the lien of this Indenture thereon; or as to the financial or technical feasibility of any project to be financed with the proceeds of Bonds. The Trustee shall not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence, willful misconduct or breach of the express terms and conditions hereof. The Trustee and its directors, officers, employees, or agents may in good faith buy, sell, own, hold, and deal in any of the Bonds and may join in any action which any Holder of a Bond may be entitled to take, with like effect as if the Trustee was not the Trustee under this Indenture. The Trustee may in good faith hold any other form of indebtedness of the City; may own, accept, or negotiate any drafts, bills of exchange, acceptances, or obligations of the City; and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

(B) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder.

(C) 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 Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or of exercising any trust or power conferred upon the Trustee under this Indenture.

(D) 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 Credit Enhancement Provider or any of the Bondholders pursuant to the provisions of this Indenture, including the provisions of Article VII, unless such Credit Enhancement Provider or such Bondholders 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; provided, however, that no security or

indemnity shall be requested or required for the Trustee to deliver a notice to obtain funds under the Credit Enhancement delivered in connection with any Series of Bonds in order to pay principal of and interest on such Series of Bonds.

(E) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder or in the exercise of its rights or powers.

(F) 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 (other than an Event of Default described in Section 7.01(A) or 7.01(B) or event that 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 of such event by the City, any Credit Enhancement Provider then providing a Credit Enhancement for a Series of Bonds, or the Holders of 25% of the Bond Obligation 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 Article VI (including the covenants of the City set forth in Section 5.09 and 6.08), other than the covenants of the City to make payments with respect to the Bonds when due as set forth in Section 6.01 and to file with the Trustee when due such reports and certifications as the City is required to file with the Trustee hereunder.

(G) 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.

(H) 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, requisition, 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 City, personally or by agent or attorney.

(I) The Trustee shall not be responsible for any of the following:

(1) the application or handling by the City of any portion of the Trust Estate or other moneys transferred to or pursuant to any Requisition or Request of the City in accordance with the terms and conditions hereof;

(2) the application and handling by the City of any other fund or account designated to be held by the City hereunder;

(3) any error or omission by the City in making any computation or giving any instruction pursuant to Section 5.09 and Section 6.08 (and the Trustee may rely conclusively on the Rebate Instructions and any computations or instructions furnished to it by the City in connection with the requirements of Section 5.09, Section 6.08 and each Tax Certificate); and

(4) the construction, operation, or maintenance of any portion of any project financed with the proceeds of Bonds by the City.

(J) 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 VIII.

(K) The Trustee agrees to accept and act upon facsimile or electronic mail transmission of written instructions or directions pursuant to this Indenture, provided, however, that (1) subsequent to such facsimile transmission of written instructions or directions the Trustee shall forthwith receive the originally executed instructions or directions, and (2) such originally executed instructions or directions shall be signed on behalf of the City by an Authorized Representative and shall be signed on behalf of any other party by a person authorized to sign for the party delivering such instructions or directions, which person shall provide such documentation as the Trustee shall request in order to evidence such authorization.

SECTION 8.05. Right of Trustee to Rely on Documents and Opinions.

(A) The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, including counsel of or to the City, and may request an opinion of counsel with regard to legal questions, including legal questions relating to proposed modifications or amendments of this Indenture, 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 therewith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(B) Whenever in the administration of the trusts imposed upon it by 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, including matters relating to proposed modifications or amendments of this Indenture, the Trustee may request a Certificate of the City and such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by such Certificate of the City, which shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable. The Trustee may also rely conclusively on any report, statement, requisition, facsimile transmission, electronic mail, or certification of any certified public accountant, investment banker, financial consultant, or other expert selected by the City or selected by the Trustee with due care in connection with matters required to be proven or ascertained in connection with its administration of the trusts created hereby.

SECTION 8.06. Compensation and Indemnification of Trustee. The City covenants to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it in the exercise and performance of any of the powers and duties hereunder of the Trustee, and the City will pay or reimburse the Trustee upon its

request for all expenses, disbursements, and advances 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) except any such expense, disbursement, or advance as may arise from its negligence, default, or willful misconduct. The City, to the extent permitted by law, shall indemnify, defend, and hold harmless the Trustee against any loss, damages, liability, or expense incurred without negligence or bad faith on the part of the Trustee and arising out of or in connection with the acceptance or administration of the trusts created hereby, including costs and expenses (including attorneys' fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder. The rights of the Trustee and the obligations of the City under this Section 8.06 shall survive the discharge of the Bonds and this Indenture and the resignation or removal of the Trustee.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THIS INDENTURE

SECTION 9.01. Amendments Permitted.

(A) (1) This Indenture and the rights and obligations of the City, the Holders of the Bonds, and the Trustee may be amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into when the written consent of the Holders of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under this Section. To the extent provided in the applicable Supplemental Indenture, the Credit Enhancement Provider for a Series of Bonds shall be deemed to be the Holder of such Series for all purposes of this Indenture except the payment of principal of and interest on such Series of the Bonds. The written consent of the Holders of a Series of Bonds may be effected (a) through a consent by the underwriter of such Series of Bonds at the time of the issuance of such Series of Bonds and (b) through a provision of a Supplemental Indenture that deems any Holders purchasing such Series of Bonds to consent for purposes of this Section 9.01(A)(1) by virtue of its purchase of such Series of Bonds.

(2) No such amendment shall (a) extend the maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected; or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Holders of which is required to effect any such amendment, or permit the creation of any lien on the Trust Estate prior to or on a parity with the lien created by this Indenture, or deprive the Holders of the Bonds of the lien created by this Indenture on the Trust Estate (except as expressly provided in this Indenture), without the

consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution and delivery by the City and the Trustee of any Supplemental Indenture pursuant to this Section 9.01(A), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Holders of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not in any way impair or affect the validity of any such Supplemental Indenture.

(B) This Indenture and the rights and obligations of the City, of the Trustee, and of the Holders of the Bonds may also be amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter without the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes:

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

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency, or omission, or of curing or correcting any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the City may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(3) to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by that act or similar federal statute, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of an additional Series of Bonds pursuant to the provisions of Article III;

(5) to provide for the issuance or incurrence, as applicable, of Interest Subsidy Bonds, Capital Appreciation Bonds, Parity Obligations, Subordinate Obligations, Fee and Expense Obligations, or Variable Rate Indebtedness with such interest rate, payment, maturity, and other terms as the City may deem desirable, subject to the provisions of Sections 3.02, 3.03, and 3.05, but only if doing so does not materially and adversely affect the interests of the Holders of the Bonds;

(6) to provide for change from one interest rate mode to another in connection with any Series of Bonds;

(7) to accommodate Credit Enhancements, Liquidity Facilities and Reserve Facilities, which shall not materially and adversely affect the interests of the Holders of the Bonds;

(8) to provide for the appointment of a remarketing agent, a tender agent, or a paying agent in connection with any Series of Bonds;

(9) to provide for any additional covenants or agreements necessary to maintain the tax-exempt status of interest on any Series of Bonds;

(10) to provide for the issuance of Bonds in book-entry form or bearer form or to modify or eliminate the book-entry registration system for any Series of Bonds;

(11) to amend this Indenture in any other respect, including amendments that would otherwise be described in Section 9.01(A), if the effective date of such amendments is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the provisions of this Indenture or if notice of the proposed amendments is given to Holders of the affected Bonds at least 30 days before the proposed effective date of such amendments and, on or before such effective date, such Holders have the right to demand purchase of their Bonds pursuant to the provisions of this Indenture; and

(12) for any other purpose that does not materially and adversely affect the interests of the Holders of the Bonds.

(C) Any Supplemental Indenture entered into pursuant to this Section 9.01 shall be deemed not to materially adversely affect the interest of the Holders, to the extent provided in the Supplemental Indenture providing for the issuance of such Bonds, so long as (1) all affected Bonds are secured by a Credit Enhancement and (2) each Credit Enhancement Provider for such Bonds shall have given its written consent to such Supplemental Indenture.

SECTION 9.02. Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to this Article IX, this Indenture shall be deemed to be amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the City, the Trustee, and all Holders of Bonds Outstanding shall thereafter be determined, exercised, and enforced hereunder subject in all respects to such amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.03. Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after any Supplemental Indenture becomes effective pursuant to this Article IX may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to any amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Holder of any Bond Outstanding at the time of such execution and presentation of his Bond for such purpose at the Corporate Trust Office or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the City and the Trustee, to any amendment contained in such Supplemental Indenture, shall be prepared and executed by the City and authenticated by the Trustee, and upon demand of the Holders of any Bonds then Outstanding shall be exchanged at the Corporate Trust Office, without cost to any Bondholder, for Bonds

then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same Series, tenor, and maturity.

SECTION 9.04. Amendment of Particular Bonds. The provisions of this Article shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by such Bondholder, provided that due notation thereof is made on such Bonds.

ARTICLE X

DEFEASANCE

SECTION 10.01. Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the City in any of the following ways:

(A) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when they become due and payable;

(B) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Outstanding Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the City shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable and to be payable hereunder and under any Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations by the City, then and in that case, at the election of the City (evidenced by a Request of the City, filed with the Trustee, signifying the intention of the City to discharge all such indebtedness and other obligations and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and the pledge of the Trust Estate made under this Indenture and all covenants, agreements, and other obligations of the City under this Indenture shall cease, terminate, become void, and be completely discharged and satisfied. 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 discharge and satisfaction, and the Trustee shall pay over, transfer, assign, or deliver to the City all moneys or securities or other property held by it pursuant to this Indenture that are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption, as evidenced by a verification report, upon which the Trustee may conclusively rely, from an independent certified public accountant, a firm of independent certified public accountants, or other independent consulting firm.

SECTION 10.02. Discharge of Liability on Bonds.

(A) Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), all liability of the City in respect of such Bond shall cease, terminate, and be completely discharged, provided (1) that if such Bond is to be redeemed prior to maturity, notice

of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (2) that the Holder thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the City shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, and such money and securities shall be pledged to such payment.

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

(C) Notwithstanding anything in this Section 10.02 to the contrary, if the principal of or interest on a Series of Bonds shall be paid by a Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with such Series of Bonds, the obligations of the City shall not be deemed to be satisfied or considered paid by the City by virtue of such payments, and the right, title, and interest of the City herein and the obligations of the City hereunder shall not be discharged and shall continue to exist and to run to the benefit of such Credit Enhancement Provider, and, to the extent of such payment, such Credit Enhancement Provider shall be subrogated to the rights of the Holders of the Bonds of such Series.

SECTION 10.03. Deposit of Money or Securities. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Indenture and shall be either or both of the following, provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Request of the City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity (based on an assumed interest rate equal to the maximum rate payable thereon for periods for which the actual interest rate on such Bonds cannot be determined), except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date (based on an assumed interest rate equal to the maximum rate payable thereon for periods for which the actual interest rate on such Bonds cannot be determined); or

(B) Investment Securities described in clause (A) of the definition thereof in Section 1.02, the principal of and interest on which when due will, in the opinion of an independent certified public accountant, a firm of independent certified public accountants, or independent consulting firm delivered to the Trustee (as confirmed by a verification report upon which verification report the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity or to the redemption date, as

the case may be, on the Bonds to be paid or redeemed (based on an assumed interest rate equal to the maximum rate payable thereon for periods for which the actual interest rate on such Bonds cannot be determined), as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided (or provision satisfactory to the Trustee shall have been made for the giving of such notice).

SECTION 10.04. Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal, Redemption Price, or interest on any Bond and remaining unclaimed for one year after such principal, Redemption Price, or interest has become due and payable (whether at maturity or upon call for redemption as provided in this Indenture), if such moneys were so held at such date, or one year after the date of deposit of such principal, Redemption Price or interest on any Bond if such moneys were deposited after the date when such Bond became due and payable, shall, subject to any law regarding unclaimed moneys, be repaid to the City free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail to the Holders of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Holders thereof, and the Trustee shall not be required to pay Holders any interest on, or be liable to the Holders or any other person (other than the City) for interest earned on, moneys so held. Any interest earned thereon shall belong to the City and shall be deposited upon receipt by the Trustee into the Revenue Fund.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. Liability of City Limited to Trust Estate. Notwithstanding anything in this Indenture or in the Bonds, the City shall not be required to advance any moneys derived from any source other than the Trust Estate for any of the purposes mentioned in this Indenture, whether for the payment of the principal, purchase price, or Redemption Price of or interest on the Bonds or for any other purpose of this Indenture.

SECTION 11.02. Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture either the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.03. Limitation of Rights. Nothing in this Indenture or in the Bonds, expressed or implied, is intended or shall be construed to give to any Person other than the City, the Trustee, each Credit Enhancement Provider, each Liquidity Facility Provider, each Reserve

Facility Provider, the Holders of the Bonds, the holders of any Parity Obligations, the holders of Subordinate Obligations, and the holders of Fee and Expense Obligations, any legal or equitable right, remedy, or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions, and provisions are and shall be held to be for the sole and exclusive benefit of the City, the Trustee, each Credit Enhancement Provider, each Liquidity Facility Provider, each Reserve Facility Provider, the Holders of the Bonds, the holders of any Parity Obligations, the holders of Subordinate Obligations, and the holders of Fee and Expense Obligations. Each Credit Enhancement Provider, Liquidity Provider, Reserve Facility Provider, Holder of the Bonds, holder of any Parity Obligations, holder of Subordinate Obligations, and holder of Fee and Expense Obligations is an express third-party beneficiary of this Indenture.

SECTION 11.04. Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice, and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 11.05. Destruction or Delivery of Canceled Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any Bonds, the Trustee may, in its sole discretion, in lieu of such cancellation and delivery, destroy such Bonds, and deliver a certificate of such destruction to the City.

SECTION 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal, or unenforceable in any respect, then such provisions or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality, or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The City hereby declares that it would have adopted this Indenture and each and every other section, paragraph, sentence, clause, or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses, or phrases of this Indenture may be held illegal, invalid, or unenforceable.

SECTION 11.07. Notice to City and Trustee. Any notice to or demand upon the Trustee may be served or presented, and such demand may be made, at the Corporate Trust Office of the Trustee. Any notice to or demand upon the City shall be deemed to have been sufficiently given or served for all purposes by being deposited, first-class mail postage prepaid, in a post office letter box, addressed to the City at 915 I Street, Historic City Hall, 3rd Floor, Sacramento, California 95814, Attention: City Treasurer (or such other address as may have been filed in writing by the City with the Trustee). Any such communication may also be sent by facsimile or electronic mail, receipt of which shall be confirmed.

SECTION 11.08. Evidence of Rights of Bondholders.

(A) Any request, consent, or other instrument required or permitted by this indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent, or other instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the City if made in the manner provided in this Section 11.08.

(B) 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 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 acknowledged to him or her the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

(C) The ownership of Bonds shall be proved by the bond registration books held by the Trustee. The Trustee may establish a record date as of which to measure consent of the Holders in order to determine whether the requisite consents are received.

(D) Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in accordance therewith or reliance thereon.

SECTION 11.09. Disqualified Bonds. In determining whether the Holders of the requisite aggregate Bond Obligation of Bonds have concurred in any demand, request, direction, consent, or waiver under this Indenture, Bonds that are owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 11.09 if the pledgee shall establish to the satisfaction of the Trustee that the pledgee has the right to vote such Bonds and that the pledgee is not a person directly or indirectly controlled by, or under direct or indirect common control with, the City. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the City shall specify in a Certificate to the Trustee those Bonds disqualified pursuant to this Section 11.09, and the Trustee may conclusively rely on such certificate.

SECTION 11.10. Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal, Redemption Price, or purchase price due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04.

SECTION 11.11. Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the corporate trust industry and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

SECTION 11.12. Limitations on Rights of Credit Enhancement Providers, Liquidity Facility Providers, Reserve Facility Providers. A Supplemental Indenture establishing the terms and provisions of a Series of Bonds may provide that any Credit Enhancement Provider, Liquidity Facility Provider, or Reserve Facility Provider may exercise any right under this Indenture given to the Holders of the Bonds to which such Credit Enhancement, Liquidity Facility, or Reserve Facility relates. Notwithstanding any other provision of this Indenture, all provisions under this Indenture authorizing the exercise of rights by a Credit Enhancement Provider, a Liquidity Facility Provider, or a Reserve Facility Provider with respect to consents, approvals, directions, waivers, appointments, requests, or other actions shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests, or other actions and shall be read as if the Credit Enhancement Provider, Liquidity Facility Provider, or Reserve Facility Provider were not mentioned therein (A) during any period during which there is a default by such Credit Enhancement Provider, Liquidity Facility Provider, or Reserve Facility Provider under the applicable Credit Enhancement, Liquidity Facility, or Reserve Facility or (B) after the applicable Credit Enhancement, Liquidity Facility, or Reserve Facility shall at any time for any reason cease to be valid and binding on the provider thereof, or shall be declared to be null and void by final non-appealable judgment of a court of competent jurisdiction, or after the Credit Enhancement, Liquidity Facility, or Reserve Facility has been rescinded, repudiated by the provider thereof, or terminated, or after a receiver, conservator, or liquidator has been appointed for the provider thereof. All provisions relating to the rights of a Credit Enhancement Provider, Liquidity Facility Provider, or Reserve Facility Provider shall be of no further force and effect if all amounts owing to such Credit Enhancement Provider, Liquidity Facility Provider, or Reserve Facility Provider shall have been paid pursuant to the terms of the applicable Credit Enhancement, Liquidity Facility, or Reserve Facility and such Credit Enhancement, Liquidity Facility, or Reserve Facility shall no longer be in effect.

SECTION 11.13. SWRCB Loan Contracts. Notwithstanding anything to the contrary in this Indenture, nothing in this Indenture amends or otherwise affects in any way (A) the terms of the SWRCB Loan Contracts, including but not limited to the covenants of the City and the rights and remedies of the SWRCB under the SWRCB Loan Contracts or (B) the terms of the Termination and Consent Agreement, dated March 22, 2013, between the City and the SWRCB.

SECTION 11.14. Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction, or effect of this Indenture.

Unless otherwise indicated, all references herein to “Articles, “Sections,” and other subdivisions are to the corresponding Articles, Sections, or subdivisions of this Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section, or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

SECTION 11.15. Waiver of Personal Liability. No member of the City Council of the City or officer, agent, or employee of the City or the Trustee shall be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member of the City Council of the City or officer, agent, or employee of the City or the Trustee from the performance of any official duty provided by law or by this Indenture.

SECTION 11.16. Governing Law. This Indenture shall be construed and governed in accordance with the laws of the State of California.

SECTION 11.17. Business Day. Except as specifically set forth in this Indenture or a Supplemental Indenture, transfers which would otherwise become due on any day which is not a Business Day shall become due or shall be made on the next succeeding Business Day with the same effect as if made on such prior date.

SECTION 11.18. Effective Date of Indenture. This Indenture shall take effect upon its execution and delivery.

SECTION 11.19. 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.

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

CITY OF SACRAMENTO

By: _____
Russell T. Fehr
City Treasurer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

TABLE OF CONTENTS

Page

ARTICLE I EQUALITY OF SECURITY; DEFINITIONS; CONTENT OF CERTIFICATES

Section 1.01.	Equality of Security	2
Section 1.02.	Definitions.....	3
Section 1.03.	Content of Certificates	19

ARTICLE II THE BONDS

Section 2.01.	Authorization of Bonds.....	20
Section 2.02.	Terms of the Bonds.....	20
Section 2.03.	Form of Bonds	21
Section 2.04.	Execution of Bonds.....	21
Section 2.05.	Transfer of Bonds	21
Section 2.06.	Exchange of Bonds	22
Section 2.07.	Bond Register.....	22
Section 2.08.	Temporary Bonds.....	22
Section 2.09.	Bonds Mutilated; Lost; Destroyed or Stolen	22
Section 2.10.	Use of Securities Depository	23

ARTICLE III ISSUANCE OF BONDS

Section 3.01.	Issuance of Bonds	24
Section 3.02.	Issuance of Additional Bonds	25
Section 3.03.	Proceedings for Issuance of Additional Bonds.....	27
Section 3.04.	Issuance of Refunding Bonds	27
Section 3.05.	Limitations on the Issuance of Obligations Payable from the Trust Estate; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations.....	29
Section 3.06.	Calculation of Maximum Annual Debt Service with Respect to Bonds and Parity Obligations.....	30
Section 3.07.	Application of Proceeds.....	31
Section 3.08.	Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations.....	31

ARTICLE IV REDEMPTION, TENDER AND PURCHASE OF BONDS

Section 4.01.	Terms of Redemption, Tender and Purchase.....	31
Section 4.02.	Notice of Redemption	31
Section 4.03.	Partial Redemption of Bonds	32
Section 4.04.	Effect of Redemption.....	32

TABLE OF CONTENTS
(continued)

Page

ARTICLE V
PLEDGE OF TRUST ESTATE; ESTABLISHMENT AND APPLICATION OF FUNDS AND ACCOUNTS

Section 5.01.	Wastewater Fund; Revenue Fund; Pledge of Trust Estate.....	33
Section 5.02.	Allocation of Moneys in the Revenue Fund	34
Section 5.03.	Application of Interest Fund	37
Section 5.04.	Application of Principal Fund.....	37
Section 5.05.	Establishment, Funding and Application of Reserve Funds	38
Section 5.06.	Application of Subordinate Obligations Fund	41
Section 5.07.	Application of Fees and Expenses Fund	41
Section 5.08.	Application of Redemption Fund.....	42
Section 5.09.	Rebate Fund	42
Section 5.10.	Payment Provisions Applicable to Interest Rate Swap Agreements	43
Section 5.11.	Investment in Funds and Accounts	43

ARTICLE VI
COVENANTS OF THE CITY

Section 6.01.	Punctual Payments	45
Section 6.02.	Extension of Payment of Bonds.....	45
Section 6.03.	Waiver of Laws.....	46
Section 6.04.	Further Assurances.....	46
Section 6.05.	Against Encumbrances.....	46
Section 6.06.	Accounting Records and Financial Statements.....	46
Section 6.07.	Amount of Rates, Fees and Charges; Rate Stabilization Fund	46
Section 6.08.	Tax Covenants	47
Section 6.09.	Continuing Disclosure	48
Section 6.10.	Maintenance and Operation of the Wastewater System	48
Section 6.11.	Payment of Taxes and Charges.....	48
Section 6.12.	Insurance	49
Section 6.13.	Sale of Wastewater System.....	49
Section 6.14.	Eminent Domain and Insurance Proceeds	49
Section 6.15.	Separate Utility Systems	49
Section 6.16.	Interest Rate Swap Agreements	49
Section 6.17.	Encumbrance of Wastewater System Components By General Fund Lease Obligations.....	49

ARTICLE VII
EVENTS OF DEFAULT AND REMEDIES

Section 7.01.	Events of Default	50
Section 7.02.	Application of the System Net Revenues and Other Funds After Default; No Acceleration	51
Section 7.03.	Trustee to Represent Bondholders	52
Section 7.04.	Bondholders' Direction of Proceedings.....	52

TABLE OF CONTENTS
(continued)

		Page
Section 7.05.	Limitation on Bondholders' Right to Sue.....	53
Section 7.06.	Absolute Obligation of the City.....	53
Section 7.07.	Termination of Proceedings.....	54
Section 7.08.	Remedies Not Exclusive.....	54
Section 7.09.	No Waiver of Default.....	54
Section 7.10.	Credit Enhancement Provider Directs Remedies Upon Event of Default.....	54
<p>ARTICLE VIII THE TRUSTEE</p>		
Section 8.01.	Appointment, Duties Immunities and Liabilities of Trustee	54
Section 8.02.	Accounting Records and Monthly Statements.....	56
Section 8.03.	Merger or Consolidation.....	57
Section 8.04.	Liability of Trustee	57
Section 8.05.	Right of Trustee to Rely on Documents and Opinions.....	59
Section 8.06.	Compensation and Indemnification of Trustee.....	59
<p>ARTICLE IX MODIFICATION OR AMENDMENT OF THIS INDENTURE</p>		
Section 9.01.	Amendments Permitted.....	60
Section 9.02.	Effect of Supplemental Indenture	62
Section 9.03.	Endorsement of Bonds; Preparation of New Bonds	62
Section 9.04.	Amendment of Particular Bonds.....	63
<p>ARTICLE X DEFEASANCE</p>		
Section 10.01.	Discharge of Indenture.....	63
Section 10.02.	Discharge of Liability on Bonds.....	63
Section 10.03.	Deposit of Money or Securities	64
Section 10.04.	Payment of Bonds After Discharge of Indenture.....	65
<p>ARTICLE XI MISCELLANEOUS</p>		
Section 11.01.	Liability of City Limited to Trust Estate.....	65
Section 11.02.	Successor Is Deemed Included in All References to Predecessor	65
Section 11.03.	Limitation of Rights.....	65
Section 11.04.	Waiver of Notice.....	66
Section 11.05.	Destruction or Delivery of Canceled Bonds	66
Section 11.06.	Severability of Invalid Provisions.....	66
Section 11.07.	Notice to City and Trustee	66
Section 11.08.	Evidence of Rights of Bondholders	67
Section 11.09.	Disqualified Bonds.....	67
Section 11.10.	Money Held for Particular Bonds.....	67
Section 11.11.	Funds and Accounts.....	68

TABLE OF CONTENTS
(continued)

	Page
Section 11.12. Limitations on Rights of Credit Enhancement Providers, Liquidity Facility Providers, Reserve Facility Providers.....	68
Section 11.13. SWRCB Loan Contracts	68
Section 11.14. Article and Section Headings and References	68
Section 11.15. Waiver of Personal Liability	69
Section 11.16. Governing Law	69
Section 11.17. Business Day	69
Section 11.18. Effective Date of Indenture.....	69
Section 11.19. Execution in Counterparts.....	69

FIRST SUPPLEMENTAL INDENTURE

between

CITY OF SACRAMENTO

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of April 1, 2013

Relating To

[\$[PRINCIPAL AMOUNT]
CITY OF SACRAMENTO
WASTEWATER REVENUE BONDS, SERIES 2013

(Supplementing the Indenture
Dated as of April 1, 2013)

FIRST SUPPLEMENTAL INDENTURE

This FIRST SUPPLEMENTAL INDENTURE, dated as of April 1, 2013 (this “First Supplemental Indenture”), between the CITY OF SACRAMENTO, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the “City”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the “Trustee”);

WITNESSETH:

WHEREAS, this First Supplemental Indenture is supplemental to the Indenture, dated as of April 1, 2013 (as supplemented and amended from time to time pursuant to its terms, the “Indenture”), between the City and the Trustee;

WHEREAS, the Indenture provides that the City may issue Bonds (as defined in the Indenture) from time to time as authorized by a Supplemental Indenture (as defined in the Indenture);

WHEREAS, in accordance with Section 3.01 of the Indenture, the City has determined to issue the City of Sacramento Wastewater Revenue Bonds, Series 2013 (the “Series 2013 Bonds”), in the aggregate principal amount of \$[PRINCIPAL AMOUNT], in order to finance the costs of certain improvements to its Wastewater System (as defined in the Indenture) (the “Series 2013 Project”);

WHEREAS, the execution and delivery of this First Supplemental Indenture has in all respects been duly and validly authorized by a resolution duly passed and approved by the City Council of the City; and

WHEREAS, all acts, conditions, and things required by law to exist, to have happened and to have been performed necessary to make the Series 2013 Bonds, when duly executed by the City and authenticated and delivered by the Trustee, valid and binding limited obligations of the City payable in accordance with their terms, and to constitute this First Supplemental Indenture a valid and binding agreement of the parties hereto for the uses and purposes herein set forth in accordance with its conditions and terms, do exist, have happened, and have been performed in the time, form and manner required by law, and the execution and entering into of this First Supplemental Indenture and the execution and delivery of the Series 2013 Bonds, subject to the terms hereof, have been in all respects duly authorized;

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH, that in order to secure the payment of the interest on and principal of and redemption premiums, if any, on the Series 2013 Bonds executed, authenticated, and delivered hereunder according to their tenor, and to secure the performance and observance of all the agreements, conditions, covenants, and terms set forth therein and herein, and to declare the conditions and terms upon and subject to which the Series 2013 Bonds will be executed, authenticated, and delivered, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Series 2013 Bonds by the Holders thereof from time to time, and for other valuable considerations, the receipt whereof is hereby acknowledged, the City does hereby agree

and covenant with the Trustee, for the benefit of the Holders from time to time of the Series 2013 Bonds, as follows:

ARTICLE XII

DEFINITIONS

SECTION 12.01. Definitions. All terms which are defined in Section 1.02 of the Indenture shall (except as otherwise provided herein) have the same definitions in this First Supplemental Indenture that are given to such terms in Section 1.02 of the Indenture.

ARTICLE XIII

FINDINGS AND DETERMINATIONS

SECTION 13.01. Findings and Determinations. The City hereby finds and determines that the Series 2013 Bonds shall be issued pursuant to Section 3.01 and upon the issuance of the Series 2013 Bonds, any and all acts, conditions, and things required to exist, to happen and to be performed, precedent to and in the issuance thereof, will exist, will have happened, and will have been performed, in due time, form, and manner, as required by the Constitution and statutes of the State.

SECTION 13.02. Recital in Bonds. There shall be included in each of the definitive Series 2013 Bonds, and also in each of the temporary Series 2013 Bonds, if any are issued, a certification and recital that any and all acts, conditions, and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by that Series 2013 Bond, and in the issuing of that Series 2013 Bond, exist, have happened, and have been performed in due time, form and manner, as required by the Constitution and statutes of the State, and that the Series 2013 Bond, together with all other indebtedness of the City payable out of the Trust Estate, is within every debt and other limit prescribed by the Constitution and statutes of the State, and that such certification and recital shall be in such form as is set forth in the form of the Series 2013 Bond attached hereto as Exhibit A.

SECTION 13.03. Effect of Findings and Recital. From and after the issuance of the Series 2013 Bonds, the findings and determinations herein shall be conclusive evidence of the existence of the facts so found and determined in any action or proceeding in any court in which the validity of the Series 2013 Bonds is at issue.

SECTION 13.04. Designation of Series 2013 Bonds as Participating Bonds. The Series 2013 Bonds are Participating Bonds under the Indenture and are secured by the Bond Reserve Fund established under the Indenture.

ARTICLE XIV

AUTHORIZATION OF SERIES 2013 BONDS

SECTION 14.01. Authorization and Terms of Series 2013 Bonds.

(A) The Series 2013 Bonds in the aggregate principal amount of \$[PRINCIPAL AMOUNT] are hereby authorized to be issued pursuant to the Indenture for the purpose of financing the Series 2013 Project.

(B) A first Series of Bonds to be issued under the Indenture is hereby created. That Series of Bonds shall be known as the “City of Sacramento Wastewater Revenue Bonds, Series 2013.” The Series 2013 Bonds shall be Current Interest Bonds in the aggregate principal amount of \$[PRINCIPAL AMOUNT].

(C) The Series 2013 Bonds shall be issued as fully registered bonds in the denominations of \$5,000 or integral multiples thereof. The Series 2013 Bonds shall be initially registered in the name of “Cede & Co.,” as nominee of The Depository Trust Company, and shall be evidenced by one Series 2013 Bond for each of the maturity dates as set forth below in this Section 14.01 in a denomination corresponding to the total principal amount of the Series 2013 Bonds to mature on such date. Each Series 2013 Bond shall be assigned a distinctive number or letter or letter and number, and a record of the same shall be maintained by the Trustee. Registered ownership of the Series 2013 Bonds, or any portion thereof, may thereafter be transferred as set forth in Section 2.10 of the Indenture.

(D) Interest on the Series 2013 Bonds shall be computed on the basis of a 360-day year composed of twelve 30-day months.

(E) The principal of and premium, if any, on the Series 2013 Bonds shall be payable when due upon presentation and surrender thereof at the Corporate Trust Office of the Trustee in lawful money of the United States of America.

(F) The Series 2013 Bonds shall be dated as of their date of issuance, shall bear interest from that date at the following rates per annum, and shall mature on September 1 in the following years in the following amounts:

Maturity Date (September 1)	Principal Amount	Interest Rate
--------------------------------	---------------------	------------------

(G) Interest on the Series 2013 Bonds shall be payable on September 1, 2013, and semiannually thereafter on March 1 and September 1 of each year by check mailed by first-class mail on each interest payment date to the Holder thereof as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date (whether or not such day is a business day) (the “Record Date”); provided, however, that Holders of at least \$1,000,000 in aggregate principal amount of Series 2013 Bonds may, at any time prior to a Record Date, give the Trustee written instructions for payment of such interest on each succeeding interest payment date by wire transfer.

(H) The Bond Reserve Requirement for the Bonds following issuance of the Series 2013 Bonds is \$_____, calculated as set forth in the Order of the City delivered in connection with the issuance of the Series 2013 Bonds.

SECTION 14.02. Redemption of the Series 2013 Bonds.

(A) Optional Redemption. The Series 2013 Bonds maturing on and after September 1, 20___, are subject to redemption prior to their stated maturities, at the option of the City, from any source of available funds, on any date on or after September 1, 20___, as a whole, or in part by such maturity or maturities as may be specified by Request of the City (and by lot within a maturity), at a Redemption Price equal to 100% of the principal amount thereof to be redeemed, plus interest accrued thereon to the date fixed for redemption, without premium.

(B) Mandatory Sinking Fund Redemption. The Series 2013 Bonds maturing on September 1, 20___, are subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2013 Bonds, on each date a Mandatory Sinking Account Payment for such Series 2013 Bonds is due, and in the principal amount equal to the Mandatory Sinking Account Payment due on such date at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

Mandatory Sinking Account Payments for the Series 2013 Bonds maturing on September 1, 20___, shall be due in such amounts and on such dates as follows (except that if any of such Series 2013 Bonds shall have been optionally redeemed pursuant to Section 14.02(A), the amounts of the remaining Mandatory Sinking Account Payments for such Series 2013 Bonds shall be revised as directed in writing by the City):

Series 2013 Bonds Maturing September 1, 20___

Mandatory Sinking Account Payment Date (September 1) _____	Mandatory Sinking Account Payment _____ \$
---	--

†

_____†
Final Maturity

(C) Selection of Bonds for Redemption. The City shall designate which maturities of any Series 2013 Bonds are to be called for optional redemption pursuant to Section 14.02(A). If less than all Series 2013 Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the Series 2013 Bonds of such maturity date to be redeemed by lot and shall promptly notify the City in writing of the numbers of the Series 2013 Bonds so selected for redemption. For purposes of such selection, Series 2013 Bonds shall be deemed to be composed of multiples of minimum authorized denominations and any such multiple may be separately redeemed.

(D) Notice of Redemption. Notice of redemption of the Series 2013 Bonds shall be provided in accordance with, and subject to, the provisions of Section 4.02.

SECTION 14.03. Form of Series 2013 Bonds. The Series 2013 Bonds and the certificate of authentication to be executed thereon shall be in substantially the form set forth as Exhibit A to this First Supplemental Indenture.

SECTION 14.04. Issuance of Series 2013 Bonds. At any time after the execution and delivery of this First Supplemental Indenture, the City may execute and the Trustee shall authenticate and deliver the Series 2013 Bonds upon the Order of the City.

SECTION 14.05. Application of Proceeds of Series 2013 Bonds. The net proceeds of the sale of the Series 2013 Bonds, \$ _____ composed of \$[PRINCIPAL AMOUNT].00 aggregate principal amount, [plus/less] [net] original issue [premium/discount] of \$ _____, less an underwriter's discount of \$ _____, shall be deposited with the Trustee and shall be held in trust and set aside or transferred by the Trustee as follows:

(A) The Trustee shall transfer the sum of \$ _____ to the City to be held by the City in the Series 2013 Project Fund, a segregated fund established pursuant to Section 14.06.

(B) The Trustee shall deposit the sum of \$ _____ in the Bond Reserve Fund which sum is equal to the Bond Reserve Requirement.

(C) The Trustee shall deposit the sum of \$ _____ in the Series 2013 Capitalized Interest Fund, a segregated fund established pursuant to Section 14.08.

(D) The Trustee shall deposit the remainder of said proceeds, \$ _____, in the Series 2013 Costs of Issuance Fund, a segregated fund established pursuant to Section 14.07.

The Trustee may establish a temporary fund or account in its records to facilitate and record such deposits and transfer.

SECTION 14.06. Establishment and Application of Series 2013 Project Fund.

(A) The City shall establish and maintain on its books a separate fund designated as the "Series 2013 Project Fund." The moneys accounted for within the Series 2013 Project Fund from the proceeds of the Series 2013 Bonds, and any other moneys accounted for within the Series 2013 Project Fund by the City, shall be used and withdrawn by the City to pay the costs of the Series 2013 Project. The City may invest amounts accounted for within the Series 2013

Project Fund in Investment Securities. All interest, profits, and other income received from the investment of moneys accounted for within the Series 2013 Project Fund shall be recorded to the credit of the Series 2013 Project Fund unless transferred by the City to the Trustee to be deposited in the Revenue Fund or the Rebate Fund.

(B) Before any payment from the Series 2013 Project Fund shall be made, the City shall file or cause to be filed in its official records a written requisition of the City to be substantially in such form as is set forth in Exhibit B hereto stating (1) the item number of such payment; (2) the name and address of the person to whom each such payment is due, which may be the City in the case of reimbursement for costs theretofore paid by the City; (3) the amounts to be paid; (4) the purpose by general classification for which each obligation to be paid was incurred; (5) that obligations in the stated amounts have been incurred by the City and are now due and payable and that each item thereof is a proper charge against the Series 2013 Project Fund and has not been previously paid from the Series 2013 Project Fund; and (6) that there has not been filed with or served upon the City notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

(C) The City shall retain a record of the requisitions from the Series 2013 Project Fund. The Trustee shall have no duty to review such requisitions.

(D) When the City determines that the Series 2013 Project has been completed, any remaining moneys accounted for within the Series 2013 Project Fund shall be used or transferred by the City in a manner consistent with the Tax Certificate relating to the Series 2013 Bonds.

SECTION 14.07. Establishment and Application of Series 2013 Costs of Issuance Fund.

(A) The Trustee shall establish, maintain, and hold in trust a separate fund designated as the "Series 2013 Costs of Issuance Fund." The moneys deposited in the Series 2013 Costs of Issuance Fund from the proceeds of the Series 2013 Bonds shall be used and withdrawn as directed by the City to pay the Costs of Issuance of the Series 2013 Bonds. All interest, profits, and other income received from the investment of moneys held in the Series 2013 Costs of Issuance Fund shall be deposited in the Series 2013 Costs of Issuance Fund unless the City instructs the Trustee to transfer to the City for deposit or to deposit such investment earnings or a portion thereof in the Series 2013 Project Fund, the Revenue Fund, or the Rebate Fund, as applicable.

(B) Before any payment from the Series 2013 Costs of Issuance Fund shall be made by the Trustee, the City shall file or cause to be filed with the Trustee a Requisition of the City, such Requisition of the City to be in substantially such form as is set forth in Exhibit C hereto. Upon issuance of each such Requisition, the Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Series 2013 Costs of Issuance Fund. The Trustee and the City shall retain a record of the Requisitions from the Series 2013 Costs of Issuance Fund.

(C) Any amounts remaining in the Series 2013 Costs of Issuance Fund 180 days after the date of issuance of the Series 2013 Bonds shall be transferred as directed by the City for deposit in the Series 2013 Project Fund, and the Series 2013 Costs of Issuance Fund shall be closed.

SECTION 14.08. Establishment and Application of Series 2013 Capitalized Interest Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Series 2013 Capitalized Interest Fund.” The moneys deposited in the Series 2013 Capitalized Interest Fund from the proceeds of the Series 2013 Bonds shall be used and withdrawn by the Trustee to make transfers to the Interest Fund to pay interest on the Series 2013 Bonds. Such transfers shall be made no later than the Business Day prior to each Interest Payment Date for the Series 2013 Bonds and in the amounts set forth in the following schedule:

<u>Interest Payment Date</u>	<u>Amount</u>
	\$

[All investment earnings on funds held in such separate fund shall be transferred to the City for deposit in the Series 2013 Project Fund. Any amounts remaining in the Series 2013 Capitalized Interest Fund following the final transfer set forth in the schedule above shall be transferred to the City for deposit in the Series 2013 Project Fund, and the Series 2013 Capitalized Interest Fund shall be closed.]

SECTION 14.09. Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed by the City and dated the date of issuance of the Series 2013 Bonds (the “Continuing Disclosure Certificate”). Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least 25% aggregate principal amount of the Series 2013 Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including reasonable fees and expenses of its attorneys), or any Holder or Beneficial Owner may, take such actions as may be necessary and appropriate to cause the City to comply with its obligations under this Section 14.08, including seeking mandate or specific performance by court order.

ARTICLE XV

MISCELLANEOUS PROVISIONS

SECTION 15.01. Terms of Series 2013 Bonds Subject to the Indenture. Except as in this First Supplemental Indenture expressly provided, every term and condition contained in the Indenture shall apply to this First Supplemental Indenture and to the Series 2013 Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations, and modifications thereof as may be appropriate to make the same conform to this First Supplemental Indenture.

This First Supplemental Indenture and all the terms and provisions herein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby.

SECTION 15.02. Effective Date of First Supplemental Indenture. This First Supplemental Indenture shall take effect upon its execution and delivery.

SECTION 15.03. Execution in Counterparts. This First Supplemental 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.

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

CITY OF SACRAMENTO

By: _____
Russell T. Fehr
City Treasurer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

[FORM OF SERIES 2013 BOND]

No. R-__ \$ _____

**CITY OF SACRAMENTO
WASTEWATER REVENUE BOND,
SERIES 2013**

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
September 1, 20__	_____%	May __, 2013	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

CITY OF SACRAMENTO, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the “City”), for value received, hereby promises to pay to the Registered Owner named above or registered assigns, on the Maturity Date specified above, the Principal Amount specified above, together with interest thereon from the Dated Date specified above until the principal hereof shall have been paid, at the Interest Rate Per Annum specified above, payable on September 1, 2013, and semiannually thereafter on March 1 and September 1 in each year. Interest hereon is payable in lawful money of the United States of America by check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date (whether or not such day is a business day) (the “Record Date”); provided, however, that owners of at least \$1,000,000 aggregate principal amount of the Series 2013 Bonds (as defined herein) may, at any time prior to a Record Date, give the Trustee (as defined herein) written instructions for payment of such interest on each succeeding interest payment date by wire transfer. The principal hereof is payable when due upon presentation hereof at the Corporate Trust Office (as such term is defined in the Indenture, dated as of April 1, 2013 (as supplemented and amended from time to time pursuant to its terms, the “Indenture”), between the City and the Trustee) of U.S. Bank National Association, as trustee (together with any successor as trustee under the Indenture, the “Trustee”), in lawful money of the United States of America. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.

This Bond is one of a duly authorized issue of City of Sacramento Wastewater Revenue Bonds (the “Bonds”) of the series and designation indicated above and is a Current Interest Bond. That authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in the Indenture, and consists or may consist of one or more Series of varying denominations, dates, maturities, interest rates, and other provisions, as in the Indenture provided, all issued or to be issued pursuant to the provisions of Chapter 3.152 of the Sacramento

City Code and the Indenture. This Bond is issued pursuant to the Indenture, as supplemented by a First Supplemental Indenture thereto, dated as of April 1, 2013, between the City and the Trustee, authorizing the issuance of the City of Sacramento Wastewater Revenue Bonds, Series 2013 (the "Series 2013 Bonds"). Certain additional Bonds may be issued and other obligations may be secured by the Trust Estate (as defined in the Indenture) on a parity basis with this Bond, subject to the provision of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth in the Indenture.

Reference is hereby made to the Indenture for a description of the terms on which the Bonds (including the Series 2013 Bonds) are issued and to be issued, the provisions with regard to the nature and extent of the security for the Bonds (including the Series 2013 Bonds), the rights of the registered owners of the Bonds (including the Series 2013 Bonds) and the rights and obligations of the City thereunder; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owners from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by such owners' acceptance hereof, consents and agrees.

The Bonds (including the Series 2013 Bonds) and the interest thereon are payable from, and are secured by a charge and lien on the Trust Estate, subject to the provision of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth in the Indenture.

The Bonds (including the Series 2013 Bonds) are limited obligations of the City and are secured by a pledge of and payable solely, both as to principal and interest and as to any premiums upon the redemption thereof, from the Trust Estate, and the City is not obligated to pay the Bonds (including the Series 2013 Bonds) except from the Trust Estate. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Bonds (including the Series 2013 Bonds) or their interest. The Bonds (including the Series 2013 Bonds) are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or any of its income or receipts, except the Trust Estate as provided in the Indenture.

The Series 2013 Bonds maturing on and after September 1, 20__, are subject to redemption prior to their stated maturities, at the option of the City, from any source of available funds, on any date on or after September 1, 20__, as a whole, or in part by such maturity or maturities as may be specified by Request of the City (and by lot within a maturity), at a Redemption Price equal to 100% of the principal amount thereof to be redeemed, plus interest accrued thereon to the date fixed for redemption, without premium.

The Series 2013 Bonds maturing on September 1, 20__, are subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2013 Bonds, on each date a Mandatory Sinking Account Payment for such Series 2013 Bonds is due on September 1 of each of the years 20__ through 20__, and in the principal amount equal to the Mandatory Sinking Account Payment due on such date (as set forth in the Indenture) at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its attorney duly authorized in writing, at the Corporate Trust Office of the Trustee, but only (1) in the manner provided in the Indenture, (2) subject to the limitations and upon payment of the charges provided in the Indenture, and (3) upon surrender and cancellation of this Bond. Upon such transfer a new fully registered Bond or Bonds without coupons, of authorized denomination or denominations, of the same Series, tenor, maturity, and interest rate for the same aggregate principal amount will be issued to the transferee in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee, and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the holders and registered owners of the Bonds (including the Series 2013 Bonds) may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of Bonds (including the Series 2013 Bonds).

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen, and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing 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 that this Bond, together with all other indebtedness of the City payable out of the Trust Estate, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

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 endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, CITY OF SACRAMENTO has caused this Bond to be executed in its name and on its behalf by the facsimile signature of an Authorized Representative and caused this Bond to be dated as of the Dated Date set forth above.

CITY OF SACRAMENTO

By: _____
Russell T. Fehr
City Treasurer

[FORM OF CERTIFICATE OF AUTHENTICATION]

This is one of the Bonds described in the within-mentioned Indenture and authenticated on the date set forth below.

Dated: _____.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

[FORM OF ASSIGNMENT]

For value received, _____ hereby sell, assign, and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises.

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

Dated: _____

Signature Guaranteed by:

NOTE: Signature must be guaranteed by an eligible guarantor institution.

[DTC LEGEND]

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

EXHIBIT B

FORM OF SERIES 2013 PROJECT FUND REQUISITION

Requisition No. _____

Series 2013 Project Fund

The undersigned, hereby certifies as follows:

1. I am [Name], [Title], of the CITY OF SACRAMENTO, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City").

2. Pursuant to the provisions of the Indenture, dated as of April 1, 2013 (as supplemented and amended from time to time pursuant to its terms, the "Indenture"), between the City and U.S. Bank National Association, as trustee (the "Trustee"), I am filing this written requisition in the official records of the City on behalf of the City. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.

3. The undersigned hereby certifies that the City is paying from the Series 2013 Project Fund created pursuant to Section 14.06 of the Indenture the amounts specified in Schedule I hereto to the persons identified in Schedule I.

4. The undersigned, acting on behalf of the City, hereby certifies that (a) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the City and are now due and payable; (b) each item is a proper charge against the Series 2013 Project Fund and has not been previously paid from the Series 2013 Project Fund; and (c) there has not been filed with or served upon the City notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in the attached Schedule, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

Dated: _____.

CITY OF SACRAMENTO

By: _____
[Title]

SCHEDULE I TO REQUISITION NO. _____

<u>Name and Address of Party to be Paid</u>	<u>Payment Amount</u>	<u>Nature of Expenditure</u>	<u>Payment Instructions¹</u>
---	---------------------------	----------------------------------	---

¹ Payment instructions to include PO #, voucher #, or journal # effecting requested transaction.

EXHIBIT C

FORM OF SERIES 2013 COSTS OF ISSUANCE FUND REQUISITION

Requisition No. _____

Series 2013 Costs of Issuance Fund

The undersigned, hereby certifies as follows:

1. I am [Name], [Title], an Authorized Representative of the CITY OF SACRAMENTO, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City").

2. Pursuant to the provisions of the Indenture, dated as of April 1, 2013 (as supplemented and amended from time to time pursuant to its terms, the "Indenture"), between the City and U.S. Bank National Association, as trustee (the "Trustee"), I am delivering this Requisition on behalf of the City. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.

3. The undersigned hereby requests that the Trustee pay from the Series 2013 Costs of Issuance Fund created pursuant to Section 14.07 of the Indenture the amounts specified in Schedule I hereto to the persons identified in Schedule I.

4. The undersigned, acting on behalf of the City, hereby certifies that (a) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the City and are now due and payable; (b) each item is a proper charge against the Series 2013 Costs of Issuance Fund; and (c) each item has not been previously paid from the Series 2013 Costs of Issuance Fund.

Dated: _____.

CITY OF SACRAMENTO

By: _____
Authorized Representative

SCHEDULE I TO REQUISITION NO. _____

<u>Name and Address of Party to be Paid</u>	<u>Payment Amount</u>	<u>Nature of Expenditure</u>	<u>Payment Instructions</u>
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ARTICLE XII
DEFINITIONS

Section 12.01. Definitions..... 2

ARTICLE XIII
FINDINGS AND DETERMINATIONS

Section 13.01. Findings and Determinations 2
Section 13.02. Recital in Bonds 2
Section 13.03. Effect of Findings and Recital 2
Section 13.04. Designation of Series 2013 Bonds as Participating Bonds 2

ARTICLE XIV
AUTHORIZATION OF SERIES 2013 BONDS

Section 14.01. Authorization and Terms of Series 2013 Bonds 3
Section 14.02. Redemption of the Series 2013 Bonds 4
Section 14.03. Form of Series 2013 Bonds 5
Section 14.04. Issuance of Series 2013 Bonds 5
Section 14.05. Application of Proceeds of Series 2013 Bonds 5
Section 14.06. Establishment and Application of Series 2013 Project Fund 5
Section 14.07. Establishment and Application of Series 2013 Costs of Issuance Fund 6
Section 14.08. Establishment and Application of Series 2013 Capitalized Interest
Account 7
Section 14.09. Continuing Disclosure 7

ARTICLE XV
MISCELLANEOUS PROVISIONS

Section 15.01. Terms of Series 2013 Bonds Subject to the Indenture 8
Section 15.02. Effective Date of First Supplemental Indenture 8
Section 15.03. Execution in Counterparts 8

EXHIBIT A FORM OF SERIES 2013 BOND A-1
EXHIBIT B FORM OF SERIES 2013 PROJECT FUND REQUISITION B-1
EXHIBIT C FORM OF SERIES 2013 COSTS OF ISSUANCE FUND
REQUISITION C-1

\$ _____
CITY OF SACRAMENTO
WASTEWATER REVENUE BONDS, SERIES 2013

BOND PURCHASE AGREEMENT

_____, 2013

Mayor and City Council
City of Sacramento
915 I Street, Fifth Floor
Sacramento, California 95814

Ladies and Gentlemen:

The undersigned, MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (the “**Underwriter**”), hereby offers to enter into this bond purchase agreement with the CITY OF SACRAMENTO, a California municipal corporation (the “**City**”). Upon acceptance of this offer by the City, this bond purchase agreement (the “**Bond Purchase Agreement**”) will be binding upon the City and the Underwriter. This offer is made subject to acceptance by the City of this Bond Purchase Agreement, by the execution and delivery of this Bond Purchase Agreement to the Underwriter at 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 to the City at any time before acceptance hereof by the City. Capitalized terms used but not defined herein have the meanings ascribed to them in the Official Statement (hereinafter defined).

The Underwriter represents to the City that it has been duly authorized to execute this Bond Purchase Agreement.

1. Purchase, Sale, and Delivery of the Series 2013 Bonds.

- (a) Subject to the terms and conditions hereinafter set forth, the Underwriter hereby agrees to purchase from the City, and the City hereby agrees to sell to the Underwriter, all (but not less than all) of the City’s \$_____ aggregate principal amount of City of Sacramento Wastewater Revenue Bonds, Series 2013 (the “**Series 2013 Bonds**”) at the aggregate purchase price of \$_____ (consisting of the principal amount of the Series 2013 Bonds plus original-issue premium of \$_____, less an underwriter’s discount of \$_____).
- (b) The Series 2013 Bonds will be dated their date of issuance and will bear interest at the rates, and mature at the times and in the amounts, all as set forth in Schedule I hereto. The Series 2013 Bonds are being issued pursuant to an Indenture, dated as of April 1, 2013 (the “**Master Indenture**”), as supplemented by the First Supplemental Indenture dated as of April 1, 2013 (the “**First Supplemental Indenture**”), between the City and U.S. Bank National Association, as trustee. The Master Indenture, as supplemented from time to time, including as supplemented by the First Supplemental Indenture, is referred to herein as the “**Indenture**.” The Series 2013 Bonds are limited obligations of

the City, secured by a pledge of, and payable solely from, the Trust Estate, which primarily consists of (1) all System Net Revenues collected after the date of issuance of the Series 2013 Bonds and (2) all funds and accounts held by the Trustee under the Indenture (other than the Rebate Fund and certain other funds specified in the Indenture) and all investments, money, instruments, and other property credited thereto or on deposit therein, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

- (c) The Underwriter agrees to make a public offering of the Series 2013 Bonds at the initial offering price or prices established by the Underwriter and set forth in Schedule I hereto. Subsequent to the initial public offering, the Underwriter reserves the right to change the initial offering price or prices as the Underwriter deems necessary in connection with the marketing of the Series 2013 Bonds and to offer and sell the Series 2013 Bonds to certain dealers, unit investment trusts, and money-market funds, certain of which may be sponsored or managed by the Underwriter, at prices lower than the public offering prices or yields greater than the yields set forth herein. The Underwriter also reserves the right (1) to over-allot or effect transactions that stabilize or maintain the market price of the Series 2013 Bonds at a level above the price that might otherwise prevail in the open market and (2) to discontinue such stabilizing, if commenced at any time.
- (d) Pursuant to a resolution of the City adopted on May __, 2013 (the “**Resolution**”), the City has approved the form and distribution of the Preliminary Official Statement dated _____, 2013, (the “**Preliminary Official Statement**”) relating to the Series 2013 Bonds and the distribution of an Official Statement, dated _____, 2013 (together with any amendment or supplement thereto, the “**Official Statement**”). The Official Statement must be in the form of the Preliminary Official Statement with such changes as are necessary to reflect the principal amount, maturity date or dates, interest rates, redemption provisions, and other information relating to the sale of the Series 2013 Bonds, and with such other changes as the Underwriter may approve. By signing this Bond Purchase Agreement, the City confirms that the City has deemed the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the “**Rule**”), except for the omission of certain information permitted to be omitted therefrom in accordance with the Rule. It is a condition of the offer of the Underwriter made hereby that the City deliver, within seven business days of the date hereof, and in any event not later than two business days prior to closing, copies of the final Official Statement in such amount as the Underwriter may reasonably request, and to deliver an electronic copy of the Official Statement in word-searchable portable document format, in order for the Underwriter to comply with the rules of the Municipal Securities Rulemaking Board (the “**MSRB**”) and subsection (b)(4) of the Rule. At the time of or prior to the Closing Date, the Underwriter shall file a copy of the Official Statement with the MSRB.
- (e) The City hereby ratifies the Underwriter’s prior use and distribution of the Preliminary Official Statement and the Official Statement (and all information contained therein) in

connection with the offering and sale of the Series 2013 Bonds, and the City hereby authorizes the Underwriter's future use of the Preliminary Official Statement and the Official Statement (and all information contained therein) for that purpose.

- (f) To assist the Underwriter in complying with the Rule, the City will undertake, pursuant to a Continuing Disclosure Certificate, dated as of _____, 2013 (the "**Continuing Disclosure Certificate**"), to provide annual financial information and notices of the occurrence of specified events. A description of the Continuing Disclosure Certificate is set forth in, and a form of such certificate is attached as an appendix to, the Preliminary Official Statement and the Official Statement.
2. Closing. At 8:00 a.m., California time, on _____, 2013, or at such other time or on such earlier or later date as the City and the Underwriter agree upon, the City shall deliver or cause to be delivered to the Underwriter the Series 2013 Bonds, together with the other documents hereinbefore or hereinafter mentioned; the Underwriter shall accept such delivery and pay the purchase price of such Bonds as set forth in Section 1 by wire transfer to the City in federal or other immediately available funds to the order of the City. Delivery and payment as aforesaid must be made at the offices of Orrick, Herrington & Sutcliffe LLP, Sacramento, California ("**Bond Counsel**"), or at such other place the City and the Underwriter agree upon; provided that the Series 2013 Bonds must be delivered through the facilities of The Depository Trust Company, New York, New York (the "**DTC**"), or its Fast Automated Securities Transfer agent. The time of payment and delivery is the "**Closing Date**."
3. Representations, Warranties, Covenants, and Agreements of the City. The City, by its acceptance hereof, represents, warrants, covenants, and agrees with the Underwriter as follows:
- (a) The City is a municipal corporation duly organized and existing under its charter (the "**City Charter**") and the Constitution and laws of the State of California (the "**State**"). The City is empowered to issue the Series 2013 Bonds and has full power and authority to take all actions required or permitted to be taken by the City by or under, and to perform and observe the covenants and agreements on its part contained in, this Bond Purchase Agreement, the Series 2013 Bonds, the Indenture, and the Continuing Disclosure Certificate. The Bond Purchase Agreement, the Series 2013 Bonds, the Indenture, and the Continuing Disclosure Certificate are collectively referred to herein as the "**City Documents**."
- (b) On or before the date hereof, the City has duly taken all action necessary to be taken by it before that date for (1) the execution, delivery, and performance of the City Documents; (2) the distribution of the Official Statement; and (3) the carrying out, giving effect to, consummation, and performance of the transactions and obligations contemplated hereby and by the Official Statement; provided that no representation is made with respect to compliance with the securities or "Blue Sky" laws of the various states of the United States.
- (c) The Resolution has been duly adopted by the Sacramento City Council at a meeting called and held pursuant to law and with all public notice required by law and at which

a quorum was present and acting throughout. The Resolution is in full force and effect and has not been modified or supplemented. This Bond Purchase Agreement has been duly executed and delivered by the City and, assuming the due execution and delivery by the Underwriter, is the legal, valid, and binding obligation of the City, enforceable against the City in accordance with its terms, except that the binding effect and enforceability thereof may be limited (1) by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance law); or (2) by general principles of equity including, without limitation, concepts of materiality, reasonableness, and good faith and fair dealing; or (3) by the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; or (4) by the exercise of judicial discretion in appropriate cases; or (5) by the limitations on legal remedies against public entities in the State.

- (d) When executed and delivered by the City, the Continuing Disclosure Certificate and the Indenture will have been duly executed and delivered by the City and will be the legal, valid, and binding obligations of the City, enforceable against the City in accordance with their terms, except that the binding effect and enforceability thereof may be limited (1) by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance law); or (2) by general principles of equity including, without limitation, concepts of materiality, reasonableness, and good faith and fair dealing; or (3) by the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; or (4) by the exercise of judicial discretion in appropriate cases; or (5) by limitations on legal remedies against public entities in the State.
- (e) To the actual knowledge of the City as of the date hereof, and except as otherwise disclosed in the Official Statement, the adoption of the Resolution, the execution and delivery of the City Documents, the compliance with the terms, conditions, or provisions hereof and thereof, and the consummation of the transactions herein and therein contemplated do not and will not in any material way (1) conflict with, or constitute a violation of, the City Charter or any constitutional provision or any law (or any regulations, order, writ, injunction, or decree of any court or governmental instrumentality applicable to the City); or (2) result in a breach of, or default on, any resolution, agreement, or instrument to which the City is a party; or (3) result in the creation or imposition of any lien, charge, or encumbrance of any nature whatsoever upon any of the properties or assets of the City pursuant to any resolution, agreement, or instrument to which the City is a party or by which it or any of its properties is bound other than the lien created by the Indenture.
- (f) To the actual knowledge of the City as of the date hereof, and except as described in the Official Statement, all authorizations, consents, and approvals of, notices to, registrations or filings with, or actions in respect of, any governmental body, agency, or other instrumentality or court required in connection with the execution, delivery, and performance by the City of this Bond Purchase Agreement, the Series 2013 Bonds, the

Indenture, and the Resolution have or will have been obtained, given, or taken and will be in full force and effect as of the Closing Date; provided that no representation is made with respect to compliance with the securities or "Blue Sky" laws of the various states of the United States.

- (g) To the actual knowledge of the City as of the date hereof, and except as described in the Official Statement, the City has not been served with process in, and has not been overtly threatened with, any action, suit, proceeding, inquiry, or investigation before or by any court, public board, or body (1) seeking to restrain or enjoin the execution, sale, or delivery of the Series 2013 Bonds; or (2) contesting or affecting in any way the validity of enforceability of the City Documents; or (3) contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any amendment or supplement thereto; or (4) contesting the powers or authority of the City with respect to the City Documents; or (5) affecting the City wherein an unfavorable decision, ruling, or finding is likely to have a material adverse effect on the financial condition or solvency of the City or affect the validity or enforceability of, or the authority or ability of the City to perform its obligations under, the City Documents. Until the end of the underwriting period (as determined in accordance with Section 3(j)), the City shall advise the Underwriter promptly of the institution of any proceedings actually known to it by any governmental agency prohibiting or otherwise affecting the use of the Preliminary Official Statement or the Official Statement in connection with the offering, sale, or distribution of the Bonds.
- (h) The City shall cooperate with the Underwriter in the qualification of the Series 2013 Bonds for offering and sale and the determination of the eligibility of the Series 2013 Bonds for investment under the laws of such jurisdictions as the Underwriter designates and shall continue any such qualification in effect so long as required for the distribution of the Series 2013 Bonds by the Underwriter; provided that the City is not required to consent to service of process in any jurisdiction or to expend any funds in connection with such qualification. The City is not responsible for compliance with or the consequences of failure to comply with applicable "Blue Sky" laws.
- (i) As of its date and up until the City's acceptance hereof, the Preliminary Official Statement and, as of the date hereof, the Official Statement (excluding the statements and information relating to the DTC and the book-entry system, as to which no opinion need be expressed) did not and do 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 the statements therein, in light of the circumstances under which they were made, not misleading.
- (j) If between the date of this Bond Purchase Agreement and the date that is 25 days after the end of the underwriting period (as determined in accordance with this Section 3(j)) any event occurs that would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, then the City shall notify

the Underwriter of any such event of which it has actual knowledge. If, in the reasonable opinion of the Underwriter the event requires the preparation and publication of a supplement or amendment to the Official Statement, then the City shall, at its own expense, prepare and furnish the following to the Underwriter: a reasonable number of copies of a supplement or amendment to the Official Statement in form and substance reasonably acceptable to the Underwriter; and, if the event notice is subsequent to the Closing Date, such legal opinions, certificates, instruments, and other documents as the Underwriter may reasonably deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement. The term “end of the underwriting period” means the later of the following: when the City delivers the Series 2013 Bonds to the Underwriter or when the Underwriter does not retain an unsold balance of the Series 2013 Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the end of the underwriting period is deemed to be the Closing Date. The City shall provide the Underwriter with such information regarding the City, its current financial condition, and its ongoing operations as the Underwriter may reasonably request. Any notice delivered pursuant to this section must be delivered in writing to the City at or before the Closing Date and must specify a date, other than the Closing Date, to be deemed the end of the underwriting period. In no event will the “end of the underwriting period” extend beyond the date that is 60 days after the Closing Date.

- (k) If the Official Statement is amended or supplemented pursuant to Section 3(j), then at the time of each supplement or amendment and at all times subsequent thereto up to and including the date that is 25 days after the Closing Date, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained herein) will be true and correct in all material respects and will not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements in the Official Statement, in light of the circumstances under which they were made, not misleading.
- (l) When the Series 2013 Bonds are issued, authenticated, and delivered in accordance with the Indenture and paid for by the Underwriter as provided for herein, the Series 2013 Bonds will be legally valid and binding obligations of the City, enforceable in accordance with their terms, except as such enforceability may be limited (1) by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors’ rights generally (including, without limitation, fraudulent-conveyance law); or (2) by general principles of equity including, without limitation, concepts of materiality, reasonableness, and good faith and fair dealing; or (3) by the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; or (4) by the exercise of judicial discretion in appropriate cases; or (5) by the limitations on legal remedies against public entities in the State. The Series 2013 Bonds will be entitled to the benefits of, and secured by, the Indenture.
- (m) Any certificate signed by an authorized representative of the City and delivered in connection with the transactions contemplated by the Official Statement and this Bond

Purchase Agreement will be deemed to be a representation and warranty by the City to the Underwriter as to the statements made therein.

- (n) 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 System Net Revenues, except for such borrowing as may be described in or contemplated by the Official Statement.
- (o) The Audited Financial Statements of the City for the Fiscal Year ended June 30, 2012, as contained in Appendix B to the Official Statement, fairly and accurately present the financial condition of the Wastewater System as of that date, and, except as referred to in or contemplated by the Official Statement, there has not been, nor does the City anticipate that there will be, any adverse change of a material nature in the financial position, assets, properties, results of operations, or condition (financial or otherwise) of the Wastewater System.
- (p) Since June 30, 2012, except as referred to in or as contemplated by the Official Statement—
 - (1) the City has not, with respect to the Wastewater System, incurred any direct or contingent financial liabilities or entered into any transactions; and
 - (2) there has not been any adverse change in the financial or physical condition of the Wastewater System,

that would materially and adversely affect the ability of the City to meet its obligations under the Indenture.
- (q) Except as disclosed in the Preliminary Official Statement and the Official Statement, the City has not failed to comply in the last five years in any material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of events as required by the Rule.
- (r) On March 5, 2013, the Sacramento City Council approved the major component of the Series 2013 Project, the Oak Park Combined Sewer System Regional Storage Project. Before doing so, the City Council considered and adopted a mitigated negative declaration in accordance with the California Environmental Quality Act (“**CEQA**”). Two days later, on March 7, 2013, the City filed a notice of determination with the Sacramento County Clerk/Recorder. As of the date hereof, no one has challenged the approval, and the time for challenging it by judicial appeal, referendum, or otherwise has expired. The balance of the Series 2013 Project consists of numerous smaller components (i.e., the rehabilitation or repair of existing facilities, such as sumps, sewers, and pipes) that fall within one or more of the classes of projects the Secretary for the California Natural Resources Agency has declared to be categorically exempt from CEQA because they do not have a significant effect on the environment. See California Code of Regulations, title 14, sections 15061(b)(2), 15300, 15301, 15302, and 15303 (the CEQA Guidelines).

4. Conditions to the Underwriter's Obligations. The obligations of the Underwriter under this Bond Purchase Agreement have been undertaken in reliance on, and shall be subject to, the due performance by the City of its obligations and agreements to be performed hereunder and to the accuracy of and compliance with the representations, warranties, covenants, and agreements of the City contained herein, in each case on and as of the date of delivery of this Bond Purchase Agreement and on and as of the Closing Date. The obligations of the Underwriter hereunder are also subject, in the discretion of the Underwriter, to the following further conditions:

(a) On the Closing Date—

- (1) the City Documents must be in full force and effect and must not have been rescinded, amended, modified, or supplemented, except as may have been agreed to in writing by the Underwriter, and the City must have adopted, and there must be in full force and effect, such additional resolutions, agreements, opinions, and certificates (including such certificates as may be required by regulations of the Internal Revenue Service to establish the tax-exempt character of interest on the Series 2013 Bonds), which resolutions, agreements, opinions, and certificates must be satisfactory in form and substance to Bond Counsel and the Underwriter and its counsel, and there must have been taken in connection therewith and in connection with the issuance of the Series 2013 Bonds all such actions as are, in the opinion of each, necessary in connection with the transactions contemplated hereby;
- (2) the Series 2013 Bonds must have been duly authorized, executed, authenticated and delivered;
- (3) the City must perform or have performed all of its obligations under, or specified in, each City Document that are to be performed at or before the Closing Date;
- (4) the representations of the City contained herein must be true and complete in all material respects on the date of acceptance hereof and on and as of the Closing Date; and
- (5) the City must have delivered to the Underwriter final Official Statements by the time, and in the numbers, required by Section 1(d) of this Bond Purchase Agreement.

(b) On or before the Closing Date, the Underwriter must have received the following documents, in each case satisfactory to the Underwriter:

- (1) This Bond Purchase Agreement duly executed and delivered by the City and the Underwriter, the Continuing Disclosure Certificate duly executed and delivered by the City, the Indenture, duly executed and delivered by the City and the Trustee, and a certified copy of the Resolution, each only with such amendments, modifications, or supplements as may have been agreed to by the Underwriter.

- (2) The Official Statement, executed on behalf of the City by an authorized representative of the City.
- (3) A copy of the Resolution (which authorizes the execution and delivery of the City Documents), together with a certificate of the City Clerk, dated as of the Closing Date, to the effect that the copy is a true and complete copy of the Resolution.
- (4) An opinion of Bond Counsel, dated the Closing Date and addressed to the City, in substantially the form attached as Appendix F to the Official Statement, together with a letter to the Underwriter to the effect that the Underwriter may rely on the opinion as if it was addressed to the Underwriter.
- (5) A supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter, substantially in the form attached hereto as Exhibit A.
- (6) The opinion of the City Attorney or his designee, dated the Closing Date and addressed to the Underwriter, to the effect that—
 - (A) the City is a municipal corporation duly organized and validly existing under the City Charter and the Constitution and the laws of the State;
 - (B) the City has duly approved the Official Statement relating to the Series 2013 Bonds;

The Sacramento City Council duly enacted the City’s Enterprise Revenue Bond Law, which is codified as Chapter 3.152 of the Sacramento City Code (the “Ordinance”), at meetings called and held according to law with all public notice required by law and at which a quorum was present and acting throughout. The Ordinance is no longer subject to referendum; is in full force and effect; and has not been amended, modified or rescinded.

- (C) the Sacramento City Council duly adopted the Resolution at a meeting called and held according to law with all public notice required by law and at which a quorum was present and acting throughout, and the Resolution is in full force and effect and has not been amended, modified, or rescinded;
- (D) the City has full right and lawful authority to execute and deliver the City Documents, and the City has duly authorized, executed, and delivered the Official Statement and the City Documents;
- (E) the City Documents are legally valid and binding obligations of the City enforceable against the City in accordance with their terms, except as enforcement may be limited by (i) bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors’ rights generally (including, without limitation, fraudulent-conveyance laws); or (ii) by general principles of equity including, without limitation, concepts of materiality, reasonableness, and good faith and fair dealing; or (iii) by the possible

unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; or (iv) by the exercise of judicial discretion in appropriate cases or; (v) by the limitations on legal remedies against public entities in the State, and provided that no opinion need be expressed with respect to any indemnification or contribution provision contained in the City Documents, or with respect to the state or federal laws that pertain to the tax-exempt status of the Series 2013 Bonds;

- (F) to the actual knowledge of the City Attorney or his designee as of the date of the opinion, the enactment of the Ordinance, the adoption of the Resolution and the execution and delivery of the Series 2013 Bonds, the Indenture, and this Bond Purchase Agreement, and compliance with the provisions hereof and thereof, under the circumstances contemplated thereby and hereby, do not and will not in any material way (i) conflict with or constitute on the part of the City a breach of, or default on, any agreement or other instrument applicable to, or binding upon, the City or any of its properties; or (ii) violate the City Charter; or (iii) violate any existing law, regulation, court order, or consent decree to which the City or any of its properties are subject; and
- (G) except as described in the Official Statement, to the actual knowledge of the City Attorney or his designee as of the date of the opinion, the City has not been served with process in, and has not been overtly threatened with, any action, suit, proceeding, inquiry, or investigation before or by any court, public board, or body (i) that contests in any way the completeness or accuracy of the Official Statement; or (ii) in which an unfavorable decision, ruling, or finding is likely to have a material adverse effect on the financial condition of the Wastewater System or on the transactions contemplated by the Bond Purchase Agreement or the Official Statement; or (iii) that is likely to adversely affect the validity or enforceability of, or the authority or ability of the City to perform its obligations under, the Resolution or the City Documents;

in each case subject to the exceptions and limitations described in the Legal Opinion Accord included in the Third-Party Legal Opinion Report of the ABA Section of Business Law (1991) and the "California Provisions" as defined in the Business Law Section of the State Bar of California Report on the Third-Party Legal Opinion Report of the ABA Section of Business Law (dated May 1992), and certain other standard exceptions and limitations specified in the opinion of the City Attorney or his designee.

- (7) The opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, as disclosure counsel to the City ("**Disclosure Counsel**"), dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit B.

- (8) The opinion of counsel to the Trustee, dated the Closing Date and addressed to the City and the Underwriter, to the effect that (A) the Trustee has been duly organized and is validly existing in good standing as a national banking association duly organized under the laws of the United States of America with full corporate power to undertake the trust of the Indenture; (B) the Trustee has duly authorized, executed, and delivered the Indenture; (C) the Indenture constitutes a legally valid and binding obligation of the Trustee, enforceable against the Trustee in accordance with its terms, except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by the application of general principles of equity; (D) exclusive of federal or state securities laws and regulations, other than routine filings required to be made with governmental agencies in order to preserve the Trustee's authority to perform a trust business (all of which routine filings counsel believes, after reasonable inquiry and investigation, to have been made), no consent, approval, authorization, or other action by any governmental or regulatory authority having jurisdiction over the Trustee is or will be required for the execution and delivery by the Trustee of the Indenture or the issuance of the Series 2013 Bonds; and (E) there is no litigation pending or threatened against or affecting the Trustee to restrain or enjoin the Trustee's participation in, or in any way contesting the powers of the Trustee with respect to the transactions contemplated by, the Series 2013 Bonds and the Indenture.
- (9) A certificate, dated the Closing Date, signed by the appropriate City representative and in form and substance satisfactory to the Underwriter, to the effect that, to the actual knowledge of such representative as of the Closing Date:
- (A) the representations and warranties of the City contained in this Bond Purchase Agreement are accurate on and as of the Closing Date as if made on that date;
 - (B) the City 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 Document on or before the Closing Date;
 - (D) between the date of the Official Statement and the date of the certificate, there has been no material adverse change in the condition (financial or otherwise) of the Wastewater System, whether or not arising from transactions in the ordinary course of business, as described in the Official Statement; and
 - (E) the representative has examined the Official Statement, and in his or her opinion the Official Statement as of its date and as of the Closing Date did not and does not contain any untrue statement of a material fact or omit to

state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

- (10) A certificate, dated the Closing Date, signed by a duly authorized officer of the Trustee, satisfactory in form and substance to the Underwriter, 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 of America; having the full power and being qualified to enter into and perform its duties under the Indenture; (B) the Trustee is duly authorized to enter into the Indenture, and the Indenture has been duly executed and delivered by the Trustee; (C) 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, bond, 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), 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; (D) it has not been served with any action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, governmental agency, or public board or body, nor is any such action, to the best of such official's knowledge after reasonable investigation, threatened against the Trustee, as such but not in its individual capacity, affecting the existence of the Trustee, or the titles of its officers to their offices, or seeking to prohibit, restrain, or enjoin the collection of the funds to be applied to pay the principal, premium, if any, and interest with respect to the Series 2013 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, wherein an unfavorable decision, ruling, or finding would materially adversely affect the validity or enforceability of the Indenture; (E) no consent, approval, authorization, or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the authentication of the Bonds or the consummation by the Trustee of the other transactions contemplated to be performed by the Trustee in connection with the authentication of the Bonds and the acceptance and performance of the obligations created by the Indenture; and (F) subject to the provisions of the Indenture and applicable law, the Trustee will apply the proceeds from the Bonds to the purposes specified in the Indenture.
- (11) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Indenture.

- (12) A tax certificate for the Series 2013 Bonds in form satisfactory to Bond Counsel and the Underwriter.
- (13) Evidence that the ratings on the Series 2013 Bonds as set forth in the Official Statement are in full force and effect as of the Closing Date.
- (14) An executed copy of the Feasibility Consultant's Report identified in Section 4(b)(15).
- (15) A certificate of Carollo Engineers, Inc. (the "**Feasibility Consultant**"), executed by an authorized signatory of the Feasibility Consultant and dated the Closing Date, to the effect that (A) the Feasibility Consultant has been retained by the City to prepare the Feasibility Consultant's Report (the "**Report**"); (B) consent is given to the inclusion of the Report as an appendix to the Preliminary Official Statement and to the inclusion of the Report (as updated to reflect the sale of the Series 2013 Bonds) as an appendix to the Official Statement; (C) the Feasibility Consultant has expertise in the matters covered by the Report and acknowledges that the City has relied on such expertise in connection with the offering and sale of the Series 2013 Bonds; (D) the conclusions set forth in the Report are reasonable as of the date of the Report subject to the information, assumptions, qualifications, and caveats disclosed in the Report; (E) the Feasibility Consultant is not aware of any plan, event, or circumstance occurring after _____, 2013, and before the date of the certificate that would cause it believe that the conclusions set forth in the Report included as an appendix to the Official Statement are no longer reasonable; and (F) the Feasibility Consultant consents to the inclusion in the Preliminary Official Statement and the Official Statement of information from the Report under the captions "THE WASTEWATER SYSTEM," "THE SERIES 2013 PROJECT," and "FEASIBILITY CONSULTANT'S REPORT," and the Feasibility Consultant has reviewed that information and agrees that it was accurately excerpted from the Report.
- (16) An opinion of Fulbright & Jaworski L.L.P., as counsel to the Underwriter, dated the Closing Date and addressed to the Underwriter, in form and substance acceptable to the Underwriter.
- (17) Such additional legal opinions, certificates, proceedings, instruments, insurance policies or evidences thereof, and other documents as the Underwriter, Disclosure Counsel, or Bond Counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the representations of the City and of the statements and information contained in the Official Statement, and the due performance or satisfaction by the City at or before the Closing of all agreements then to be performed and all conditions then to be satisfied by the City in connection with the transactions contemplated hereby and by the Indenture.

5. Termination of Agreement.

- (a) If the City cannot satisfy the conditions to the obligations of the Underwriter to be satisfied by the City under this Bond Purchase Agreement, then this Bond Purchase Agreement will terminate with the effect stated in Section 5(c) below.
- (b) The Underwriter may terminate this Bond Purchase Agreement, with the effect stated in Section 5(c) below, at any time after the date of this Bond Purchase Agreement and on or before the Closing Date by notifying the City in writing of its election so to do if, in the reasonable judgment of the Underwriter, between the date hereof and the Closing Date, the marketability of the Series 2013 Bonds at the initial offering prices set forth in the Official Statement has been materially adversely affected by reason of any of the following:
 - (1) An amendment to the Constitution of the United States or the State is passed; or legislation is introduced in or enacted by the Congress of the United States (the “**Congress**”) or the legislature of any state having jurisdiction of the subject matter, or legislation pending in the Congress is amended; or legislation is recommended to the Congress or to any state having jurisdiction of the subject matter or otherwise endorsed for passage (by press release, other form of notice, or otherwise) 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 legislation is proposed for consideration by either committee by any member thereof or presented as an option for consideration by either such committee by the staff of the committee or by the staff of the Joint Committee on Taxation of the Congress; or legislation is favorably reported for passage to either house of the Congress by a committee of the House to which such legislation has been referred for consideration; or a decision is rendered by a court of the United States or of the State or the Tax Court of the United States; or a ruling is made or a regulation or temporary regulation is proposed or made or any other release or announcement is made by the Treasury Department of the United States, the Internal Revenue Service, or other federal or State authority, which, in the reasonable judgment of the Underwriter, may have the purpose or effect, directly or indirectly, of affecting the tax status of the Series 2013 Bonds or the interest thereon, or any tax exemption granted or authorized by State legislation.
 - (2) Legislation is enacted, introduced in the Congress, or recommended for passage by the President of the United States; or a decision is rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States; or an order, ruling, regulation (final, temporary or proposed), or official statement is issued or made by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Series 2013 Bonds, or the Series 2013 Bonds themselves, including any or all

underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under the Trust Indenture Act of 1939, as amended.

- (3) The declaration of war or engagement or significant escalation in major military hostilities by the United States or the occurrence of any other national emergency or calamity relating to the effective operation of the government of, or the financial community in, the United States.
- (4) The declaration of a general banking moratorium by federal, New York, or California authorities, or the general suspension of trading on any national securities exchange.
- (5) The occurrence of a major financial crisis, a material disruption in commercial banking or securities settlement or clearance services, or a material disruption or deterioration in the fixed income or municipal securities market.
- (6) The imposition by the New York Stock Exchange or other national securities exchange, or by any governmental authority, of any material restrictions not now in force with respect to the Series 2013 Bonds or obligations of the general character of the Series 2013 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 the net capital requirements of, the Underwriter.
- (7) An order, decree, or injunction of any court having jurisdiction, or an order, ruling, regulation, or official statement by the Securities and Exchange Commission or by any other governmental agency having jurisdiction of the subject matter is issued or made to the effect that the issuance, offering, or sale of obligations of the general character of the Series 2013 Bonds, or the issuance, offering, or sale of the Series 2013 Bonds themselves, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect.
- (8) Any rating agency rating the Series 2013 Bonds downgrades, suspends, or withdraws (or announces its intent to downgrade, suspend, or withdraw) any rating of the Series 2013 Bonds, or issues any negative qualification with respect to the Series 2013 Bonds (such as being placed on “credit watch” with negative implications or “negative outlook” or any similar qualification).
- (9) Any event occurs or information becomes known that, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a 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.

- (c) If this Bond Purchase Agreement is terminated as herein provided, then the parties hereto will have no obligations to each other except as provided in Section 6.

6. Expenses.

- (a) The Underwriter shall pay all expenses incurred by it in connection with the offering of the Series 2013 Bonds, including (1) the fees and disbursements of its counsel and (2) the cost of qualifying the Series 2013 Bonds for sale in various states chosen by the Underwriter and the cost of preparing or printing any “Blue Sky” or legal investment memoranda to be used in connection with such sale. If the Underwriter purchases the Series 2013 Bonds, then the Underwriter shall pay costs and disbursements it incurs in connection with the transactions contemplated herein and hereby, including the costs of travel by the Underwriter’s personnel, fees of the California Debt and Investment Advisory Commission, and out-of-pocket expenses.
- (b) Whether or not the Underwriter purchases the Series 2013 Bonds, the Underwriter will not be obligated to pay, and the City shall pay, all expenses incident to the performance by the City of its obligations hereunder (other than as set forth in Section 6(a)), including but not limited to (1) the fees and expenses of Bond Counsel and Disclosure Counsel; (2) charges made by rating agencies for the rating of the Series 2013 Bonds; (3) the fees and expenses of the personnel and staff of the City designated to work on the issuance and sale of the Series 2013 Bonds; (4) printing and distribution of the Preliminary Official Statement and the Official Statement; (5) fees and expenses of the DTC; and (6) the fees and expenses of the Trustee, fees and expenses of counsel to the Trustee, and fees and expenses of the Feasibility Consultant.

7. Miscellaneous.

- (a) Except as otherwise specifically provided in this Bond Purchase Agreement, all notices, demands, and formal actions under this Bond Purchase Agreement must be in writing and given by first-class mail (postage prepaid) or by personal delivery to the City and the Underwriter at the following addresses:

City of Sacramento	Merrill Lynch, Pierce, Fenner & Smith
915 “I” Street	Incorporated
Historic City Hall, Third Floor	333 S. Hope Street, Suite 2310
Sacramento, California 95814	Los Angeles, California 90071
Attn: City Treasurer	Attn: Jeffrey D. Bower, Managing Director

- (b) This Bond Purchase Agreement inures to the benefit of, and is binding upon, the City and the Underwriter and their successors and assigns.
- (c) All of the representations, warranties, and covenants of the City and the Underwriter in this Bond Purchase Agreement will remain operative and in full force and effect regardless of (1) any investigation made by or on behalf of the Underwriter or the City or (2) delivery of any payment for the Series 2013 Bonds hereunder.

- (d) Section headings have been inserted in this Bond Purchase Agreement as a matter of convenience of reference only. They are not a part of this Bond Purchase Agreement and are not to be used when interpreting it.
 - (e) If any non-material provision of this Bond Purchase Agreement is held or deemed to be or is invalid, inoperative, or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions, because it conflicts with any provisions of any constitution, statute, or rule of public policy, or for any other reason, such circumstances shall not have the effect rendering any other provision or provisions of this Bond Purchase Agreement invalid, inoperative, or unenforceable to any extent whatsoever.
 - (f) This Bond Purchase Agreement may be executed in several counterparts, each of which will be regarded as an original and all of which will constitute one and the same document.
 - (g) This Bond Purchase Agreement is governed by, and is to be construed in accordance with, the law of the State.
8. Relationship of the Parties. The City and the Underwriter acknowledge and agree (a) that the primary role of the Underwriter, as underwriter, is to purchase securities from the City, in an arm's-length commercial transaction between the City and the Underwriter, and then to resell the securities to investors; (b) that the Underwriter has financial and other interests that differ from those of the City; (c) that the Underwriter is not acting as a municipal advisor, financial advisor, or fiduciary to the City and has not assumed any advisory or fiduciary responsibility to the City with respect to the transaction contemplated hereby and the discussions, undertakings, and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the City on other matters); (d) that the only contractual obligations the Underwriter has to the City with respect to the transaction contemplated hereby are expressly set forth in this Bond Purchase Agreement; and (e) that the City and the Underwriter have consulted their own financial and municipal, legal, accounting, tax, and other advisors, as applicable, to the extent they have deemed appropriate. Nothing in this section is intended to limit the Underwriter's obligation of fair dealing under MSRB Rule G-17.
9. Entire Agreement. This Bond Purchase Agreement constitutes the entire agreement between the parties with respect to the matters covered and is intended to be their final, complete, and exclusive expression of those matters. It supersedes all prior agreements and understandings between the parties. This Bond Purchase Agreement may be amended, supplemented, or modified only by a writing signed by the City and the Underwriter.

(Signature Page Follows)

Very truly yours,

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By: _____
MERRILL LYNCH, PIERCE, FENNER &
SMITH INCORPORATED

Title:

Dated: _____, 2013

Accepted By:

CITY OF SACRAMENTO, CALIFORNIA

By: _____
Russell T. Fehr, City Treasurer

Dated: _____, 2013

SCHEDULE I

\$ _____

CITY OF SACRAMENTO
WASTEWATER REVENUE BONDS, SERIES 2013

MATURITY SCHEDULE

\$ _____ Serial Bonds

<u>Maturity</u> <u>(September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
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\$ _____ % Term Bonds due September 1, 20__ @ _____ %*
\$ _____ % Term Bonds due September 1, 20__ @ _____ %*

*Yield to par call on September 1, 20__

REDEMPTION PROVISIONS

Optional Redemption. The Series 2013 Bonds maturing on and after September 1, 20__ are subject to redemption before their respective stated maturities, at the option of the City, from any source of available funds, on any date on or after September 1, 20__ as a whole or in part by such maturity or maturities as may be specified by the City (and by lot within a maturity), at a Redemption Price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Redemption. The Series 2013 Bonds maturing on September 1, 20__, are also subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2013 Bonds on each September 1 on and after September 1, 20__, at a redemption price equal to the principal amount of the Series 2013 Bonds to be redeemed plus accrued interest, if any, to the redemption date, without premium. Such Mandatory Sinking Account Payments will be sufficient to redeem (or pay at maturity) the following principal amounts of such Series 2013 Bonds on the dates set forth below (except that if any such Series 2013 Bonds are optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Account Payments for such Series 2013 Bonds will be revised as directed by the City):

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
---	--

* Final Maturity

The Series 2013 Bonds maturing on September 1, 20__, are also subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2013 Bonds on each September 1 on and after September 1, 20__, at a redemption price equal to the principal amount of the Series 2013 Bonds to be redeemed plus accrued interest, if any, to the redemption date, without premium. Such Mandatory Sinking Account Payments will be sufficient to redeem (or pay at maturity) the following principal amounts of such Series 2013 Bonds on the dates set forth below (except that if any such Series 2013 Bonds are optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Account Payments for such Series 2013 Bonds will be revised as directed by the City):

**Mandatory Sinking Account
Payment Date
(September 1)**

**Mandatory Sinking
Account
Payment**

* Final Maturity

EXHIBIT A

FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL

[Closing Date]

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
Los Angeles, California

City of Sacramento
Wastewater Revenue Bonds, Series 2013
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you, as Underwriter, pursuant to Section 4(b)(5) of the Bond Purchase Agreement, dated _____, 2013 (the "Purchase Contract"), between you and the City of Sacramento (the "City"), providing for the purchase of \$_____ principal amount of City of Sacramento Wastewater Revenue Bonds, Series 2013 (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of April 1, 2013 (the "Original Indenture"), as supplemented by a First Supplemental Indenture, dated as of April 1, 2013 (the "First Supplemental Indenture" and, collectively with the Original Indenture, the "Indenture"), each between the City and U.S. Bank National Association, as trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture or, if not defined in the Indenture, in the Purchase Contract.

In connection with our role as bond counsel to the City, we have reviewed the Purchase Contract; the Indenture; the Tax Certificate, dated the date hereof (the "Tax Certificate"), executed by the City; opinions of counsel to the City and the Trustee; certificates of the City, the Trustee and others; and such other documents, opinions and matters to the extent we deemed necessary to provide the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the

Indenture, the Tax Certificate and the Purchase Contract and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinions with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, except as expressly set forth in numbered paragraph 3 below, completeness or fairness of the Official Statement dated _____, 2013 (the "Official Statement") or other offering material relating to the Bonds and express no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.
2. The Purchase Contract has been duly executed and delivered by, and is a valid and binding agreement of, the City.
3. The statements contained in the Official Statement under the captions "THE SERIES 2013 BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "TAX MATTERS" and contained in APPENDIX D – "SUMMARY OF THE INDENTURE" and APPENDIX F – FORM OF BOND COUNSEL OPINION," excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly summarize certain provisions of the Indenture and the form and content of our final legal opinion as bond counsel to the City concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the City, are accurate in all material respects.

This letter is furnished by us as bond counsel to the City. No attorney-client relationship has existed or exists between our firm and you in connection with the Bonds or by virtue of this letter. Our engagement with respect to the Bonds has concluded with their issuance. We disclaim any obligation to update this letter. This letter is delivered to you as Underwriter of the Bonds, is solely for your benefit as such Underwriter and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

EXHIBIT B

FORM OF OPINION OF DISCLOSURE COUNSEL

[Closing Date]

City of Sacramento
Sacramento, California

Merrill Lynch, Pierce, Fenner & Smith Incorporated
Los Angeles, California

Ladies and Gentlemen:

We have acted as Disclosure Counsel to the City of Sacramento (the "City") in connection with the issuance of \$ _____ aggregate principal amount of City of Sacramento Wastewater Revenue Bonds, Series 2013 (the "Bonds"), issued pursuant to an Indenture, dated as of April 1, 2013 (the "Original Indenture"), as supplemented by a First Supplemental Indenture, dated as of April 1, 2013 (the "First Supplemental Indenture" and collectively with the Original Indenture, the "Indenture"), each between the City and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds are being delivered to Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"), pursuant to the Purchase Contract, dated _____, 2013 (the "Purchase Contract"), between the City and the Underwriter. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

During the course of our engagement, we have examined and relied upon the following:

- (a) a resolution of the City adopted April __, 2013, approving the issuance of the Bonds and related matters;
- (b) the Preliminary Official Statement relating to the Bonds dated _____, 2013 (the "Preliminary Official Statement"), and an executed copy of the Official Statement, dated _____, 2013 (the "Official Statement");
- (c) an executed copy of the Indenture;
- (d) an executed copy of the Feasibility Consultant's Report of Carollo Engineers, Inc. (the "Feasibility Consultant"); and
- (e) an executed copy of the Purchase Contract and the certificates and opinions of counsel delivered pursuant thereto.

In addition, we have examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such other documents, instruments or corporate records, and have made such investigation of law, as we have considered necessary or appropriate for the purpose of this opinion. We have assumed, but not independently verified, that the signatures on all

documents, letters, opinions and certificates which we have examined are genuine, that all documents submitted to us are authentic and were duly and properly executed by the parties thereto and that all opinions and representations made in the documents that we have reviewed are true and correct.

We are not passing upon and have not undertaken to determine independently or to verify the accuracy or completeness of the statements contained in the Official Statement and are, therefore, unable to make any representation to you in that regard. Based on our participation in conferences with representatives of the City (including particularly the Department), the City Attorney, Orrick Herrington & Sutcliffe LLP, as Bond Counsel, the Feasibility Consultant, the Underwriter and others, during which conferences the content of the Official Statement and related matters were discussed, and, in reliance thereon and on certain documents reviewed by us and on the documents, letters, certificates and opinions described above and our understanding of applicable law, we advise you as a matter of fact, but not opinion, that no information has come to the attention of the attorneys in the firm representing the City which caused us to believe that (i) the Preliminary Official Statement (excluding therefrom any financial, statistical or economic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, the information in Appendix A, B, C, D, F and G to the Official Statement, or any information about book-entry or DTC, included therein, and information permitted to be omitted therefrom by Securities and Exchange Commission Rule 15c2-12, as to all of which no opinion is expressed) as of its date contained, or as of the date of the Purchase Contract contained, any untrue statement of a material fact or omitted to state a 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 or (ii) the Official Statement (excluding therefrom any financial, statistical or economic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, the information in Appendix A, B, C, D, F and G to the Official Statement, or any information about book-entry or DTC, included therein, as to all of which no opinion is expressed) as of its date contained, or as of the date of the Closing contains, any untrue 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.

We advise you that, other than reviewing the various certificates and opinions regarding the Preliminary Official Statement and the Official Statement delivered in connection with the issuance of the Bonds, we have not taken any steps since the date of the Official Statement to verify the accuracy of the statements contained in the Preliminary Official Statement and Official Statement as of the date hereof.

We call attention to the fact that the foregoing conclusions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or occur (or do not occur), and we expressly disclaim any responsibility to advise you as to events occurring after the date hereof with respect to the Bonds or other matters discussed in the Official Statement.

This letter is furnished by us as Disclosure Counsel to the City. No attorney-client relationship has existed or exists between our firm and the Underwriter in connection with the Bonds or by virtue of this letter. This letter is delivered to you as Underwriter, is solely for the benefit of the Underwriter as the underwriter of the Bonds and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. We express no opinion herein with respect to the validity of the Bonds or the tax treatment of the interest with respect thereto or the compliance with, or applicability of, any "blue sky" laws of any state as they relate to the offer or sale of the Bonds. This letter is not intended to be relied upon by holders of the Bonds. Our engagement with respect to the Bonds terminates as of the date hereof.

Respectfully submitted,

PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2013

NEW ISSUE-BOOK-ENTRY ONLY

RATINGS: See “Ratings”

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2013 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2013 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2013 Bonds. See “Tax Matters” herein.

\$ _____*

CITY OF SACRAMENTO
WASTEWATER REVENUE BONDS, SERIES 2013

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The City of Sacramento Wastewater Revenue Bonds, Series 2013 (the “**Series 2013 Bonds**”) are being issued by the City of Sacramento (the “**City**”) to (1) finance the costs of certain improvements to its Wastewater System (the “**Series 2013 Project**”); (2) fund capitalized interest on the Series 2013 Bonds to March 1, 2014; (3) establish a debt-service reserve fund; and (4) pay costs of issuance of the Series 2013 Bonds.

The Series 2013 Bonds will be issued in book-entry form only, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company (“**DTC**”), New York, New York. Beneficial owners of Series 2013 Bonds will not receive physical certificates representing the Series 2013 Bonds purchased but will receive a credit balance on the books of the nominees of such purchasers. The Series 2013 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Interest on the Series 2013 Bonds will be payable semiannually on March 1 and September 1, commencing September 1, 2013. Payments of interest on and principal of the Series 2013 Bonds will be paid to DTC. DTC is obligated in turn to remit such interest and principal to the DTC participants for subsequent disbursement to the beneficial owners of the Series 2013 Bonds. See APPENDIX G - “BOOK-ENTRY ONLY SYSTEM.”

The Series 2013 Bonds are subject to optional and mandatory redemption before their stated maturities, as described herein. See “THE SERIES 2013 BONDS – Redemption Provisions.”

The Series 2013 Bonds are being issued pursuant to an Indenture, dated as of April 1, 2013, as supplemented by the First Supplemental Indenture, dated as of April 1, 2013 (as supplemented, the “**Indenture**”), between the City and U.S. Bank National Association, as trustee (the “**Trustee**”). The Series 2013 Bonds are limited obligations of the City, secured by a pledge of and payable solely from the Trust Estate, which primarily consists of (1) all System Net Revenues collected after the date of issuance of the Series 2013 Bonds and (2) all funds and accounts held by the Trustee under the Indenture (other than the Rebate Fund and certain other funds specified in the Indenture) and all investments, money, instruments, and other property credited thereto or on deposit therein, subject to the provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. “**System Net Revenues**” means System Revenues remaining after payment of Maintenance and Operation Costs then due and payable. “**System Revenues**” consist primarily of all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Wastewater System excluding certain moneys as described herein.

Pursuant to the Indenture, the City may issue additional bonds (together with the Series 2013 Bonds, the “**Bonds**”) and incur other obligations (the “**Parity Obligations**”) secured by the pledge of and payable from the Trust Estate on a parity basis with the Series 2013 Bonds and may also issue or incur other obligations secured by the pledge of and payable from the Trust Estate on a basis junior and subordinate to the Series 2013 Bonds, other Bonds, and Parity Obligations, subject to the terms of the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds, Parity Obligations, Subordinate Obligations and Fee and Expense Obligations.” The City has previously entered into Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Obligations.”

The Series 2013 Bonds are limited obligations of the City and are secured by a pledge of and payable solely, both as to principal and interest and as to any premiums upon the redemption thereof, from the Trust Estate as provided in the Indenture, and the City is not obligated to pay the Series 2013 Bonds except from the Trust Estate as provided in the Indenture. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Series 2013 Bonds or their interest. The Series 2013 Bonds are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or any of its income or receipts, except the Trust Estate as provided in the Indenture.

This cover page contains certain information for general reference only and is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See “CERTAIN RISK FACTORS” for a description of certain risks associated with an investment in the Series 2013 Bonds.

The Series 2013 Bonds will be offered when, as, and if issued and received by the Underwriter, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP; and for the City by its Disclosure Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, and the City Attorney. It is expected that the Series 2013 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about June __, 2013.

BofA Merrill Lynch

Dated June __, 2013

* Preliminary, subject to change.

\$ _____*

CITY OF SACRAMENTO
WASTEWATER REVENUE BONDS, SERIES 2013

MATURITY SCHEDULE*

\$ _____ **Serial Bonds**

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP [†]	Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP [†]
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\$ _____ % Term Bonds due September 1, _____ @ _____ %; CUSIP[†]: _____

\$ _____ % Term Bonds due September 1, _____ @ _____ %; CUSIP[†]: _____

* Preliminary; subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the City or the Underwriter and are included solely for the convenience of the registered owners of the Series 2013 Bonds. Neither the City nor the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2013 Bonds or as included herein. The CUSIP number for a specific maturity is subject to change after the issuance of the Series 2013 Bonds as a result of various subsequent actions.

CITY OF SACRAMENTO, CALIFORNIA

Kevin Johnson
Mayor

CITY COUNCIL MEMBERS

Angelique Ashby
District 1

Jay Schenirer
District 5

Allen Wayne Warren
District 2

Kevin McCarty
District 6

Steve Cohn
District 3

Darrell Fong
District 7

Steve Hansen
District 4

Bonnie Pannell
District 8

CHIEF CITY ADMINISTRATIVE PERSONNEL

John F. Shirey
City Manager

Russell T. Fehr
City Treasurer

James Sanchez
City Attorney

Leyne Milstein
Finance Director

Shirley Concolino
City Clerk

Janelle Gray
Debt Manager

Dave Brent
Director of Utilities

Bill Busath
Engineering Manager

Michael Malone
Field Services Manager

Jamille Moens
Business Services Manager

Special Services

Bond Counsel

Orrick, Herrington & Sutcliffe LLP

Disclosure Counsel

Stradling Yocca Carlson & Rauth,
A Professional Corporation

Trustee

U.S. Bank National Association

Feasibility Consultant

Carollo Engineers, Inc.

No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations other than those contained herein, and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor may the Series 2013 Bonds be sold in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2013 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 representations of fact.

The information and expressions of opinion herein are subject to change without notice. The delivery of this Official Statement and any sale made hereunder will not, under any circumstances, create any implication that there has been no change in affairs of the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (“EMMA”) website.

In connection with this offering, the Underwriter may overallocate or effect transactions that may stabilize or maintain the market price of the Series 2013 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Certain statements included or incorporated by reference in the following information constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City’s forecasts in any way. Except as set forth in the Continuing Disclosure Certificate, the City does not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, events, conditions, or circumstances on which such statements are based occur or do not occur.

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

The Series 2013 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance on an exemption from the registration requirements contained in such Act.

The City maintains a website. The information therein is not incorporated by reference and should not be relied upon in making an investment decision.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Authority for Issuance and Purpose	1
The City of Sacramento.....	1
The Wastewater System	1
Security and Sources of Payment for the Bonds	2
Rate Covenant	3
Outstanding Obligations.....	3
Bond Reserve Fund	4
Rate Stabilization Fund	4
Continuing Disclosure.....	4
Feasibility Consultant’s Report	5
Certain Risk Factors	5
Other Matters	5
ESTIMATED SOURCES AND USES OF FUNDS	6
PLAN OF FINANCE.....	6
THE SERIES 2013 BONDS.....	6
General	6
Redemption Provisions.....	7
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS	9
General; Pledge of the Trust Estate	9
Wastewater Fund; Application of System Revenues	11
Allocation of Revenues	11
Rate Covenant	13
Bond Reserve Fund	14
Outstanding Parity Obligations	15
Additional Bonds, Parity Obligations, Subordinate Obligations and Fee and Expense Obligations	15
Rate Stabilization Fund	19
Separate Utility Systems.....	19
PAYMENT SCHEDULE	20
THE WASTEWATER SYSTEM.....	21
General	21
Service Area	21
Management	21
Employees	22
Wastewater System Facilities.....	22
Wastewater Treatment.....	24
Interrelationship Between the Wastewater System and Stormwater Drainage System	25
Regulatory Compliance.....	26
Customers	29
Rates and Charges	30
Collection Procedures.....	33
General Fund Tax on Wastewater System Revenues.....	34

Budgetary and Financial Procedures	34
Investment of Funds	35
Capital Improvement Program	36
Retirement Programs	37
Insurance	38
Leasing of Certain Components of the Wastewater System	38
Floods	40
Historical Financial Results.....	40
Projected Financial Results	42
THE SERIES 2013 PROJECT.....	45
FEASIBILITY CONSULTANT’S REPORT.....	46
CERTAIN RISK FACTORS	46
Rate Covenant Not a Guarantee	46
Increased Costs.....	47
Statutory and Regulatory Impact.....	47
Potential Acceleration of Parity Obligations and Liquidity Facility Bonds; No Acceleration of Bonds	47
Aging Components of Wastewater System.....	48
Earthquake, Flood or Other Natural Disasters.....	48
Commingling of System Revenues	48
Effect of City Bankruptcy	48
Effect of Losses in City Investment Pool.....	50
Limitation on Remedies	50
Feasibility Consultant’s Report.....	51
Potential Termination of Master Interagency Agreement.....	51
Certain Limitations on the Ability of the City to Impose Taxes, Fees and Charges.....	52
ABSENCE OF LITIGATION	54
CONTINUING DISCLOSURE.....	54
TAX MATTERS.....	55
APPROVAL OF LEGALITY.....	57
RATINGS	57
UNDERWRITING	57
INDEPENDENT AUDITOR.....	57
MISCELLANEOUS	58
APPENDIX A FEASIBILITY CONSULTANT’S REPORT.....	A-1
APPENDIX B AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2012.....	B-1
APPENDIX C GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF SACRAMENTO.....	C-1
APPENDIX D SUMMARY OF THE INDENTURE	D-1
APPENDIX E FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	E-1

APPENDIX F PROPOSED FORM OF BOND COUNSEL OPINION..... F-1
APPENDIX G BOOK-ENTRY ONLY SYSTEM.....G-1

OFFICIAL STATEMENT

\$ _____ *

CITY OF SACRAMENTO WASTEWATER REVENUE BONDS, SERIES 2013

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2013 Bonds being offered and a brief description of the Official Statement (which includes the cover page and Appendices hereto). All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the “**State**”) and any documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms under the Indenture. See APPENDIX D—“SUMMARY OF THE INDENTURE.”

Authority for Issuance and Purpose

The purpose of this Official Statement is to set forth certain information concerning the issuance and sale of the City of Sacramento Wastewater Revenue Bonds, Series 2013 in the aggregate principal amount of \$ _____ * (the “**Series 2013 Bonds**”) pursuant to an Indenture, dated as of April 1, 2013, as supplemented by the First Supplemental Indenture dated as of April 1, 2013 (as supplemented, the “**Indenture**”), between the City of Sacramento (the “**City**”) and U.S. Bank National Association, as trustee (the “**Trustee**”). The Series 2013 Bonds are being issued by the City to (1) finance the costs of certain improvements to its Wastewater System (the “**Series 2013 Project**”); (2) fund capitalized interest on the Series 2013 Bonds to March 1, 2014; (3) establish a debt service reserve fund; and (4) pay costs of issuance of the Series 2013 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE SERIES 2013 PROJECT.”

The City of Sacramento

The City is at the confluence of the Sacramento and American Rivers in the northern part of California’s Central Valley (the “**Central Valley**”), approximately 75 air miles northeast of San Francisco. As of January 1, 2013, the City had an estimated population of 473,509. See APPENDIX C — “GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF SACRAMENTO.”

The Wastewater System

The Wastewater System is owned and operated by the City under the administration of the City Department of Utilities (the “**Department**”). The operations of the Wastewater System are accounted for in an enterprise fund established and maintained by the City on its books (the “**Wastewater Fund**”). The Wastewater System provides wastewater services to approximately 76,500 residential and commercial accounts located within the City. The Wastewater System includes approximately 830 miles of pipe and 45 sewage-pump stations. The residential and commercial customers that receive wastewater service from the Wastewater System constitute

* Preliminary, subject to change.

approximately 57% of the total residential and commercial customers within the City. The remaining customers receive wastewater service from the Sacramento Area Sewer District (“SASD”), a separate entity not controlled by the City. All System Revenues are accounted for in the Wastewater Fund. See “THE WASTEWATER SYSTEM.”

The Wastewater System also includes treatment facilities that are utilized by the Wastewater System during significant wet-weather events. However, the majority of wastewater collected through the Wastewater System is delivered for treatment to a regional treatment facility, owned and operated by the Sacramento Regional County Sanitation District (the “SRCSD”), under a Master Interagency Agreement dated as of November 1, 1974, and amended and restated on December 11, 1996 (the “**Master Interagency Agreement**”) between the SRCSD and the City, the County of Sacramento, SASD, and the City of Folsom (collectively, the “**Contributing Agencies**”). See “THE WASTEWATER SYSTEM.”

Security and Sources of Payment for the Bonds

The Series 2013 Bonds are limited obligations of the City, secured by a pledge of and payable solely from the Trust Estate, which primarily consists of (1) all System Net Revenues collected after the date of issuance of the Series 2013 Bonds; and (2) all funds and accounts held by the Trustee under the Indenture (other than the Rebate Fund and certain other funds specified in the Indenture) and all investments, money, instruments, and other property credited thereto or on deposit therein, subject to the provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. “**System Net Revenues**” means System Revenues remaining after payment of Maintenance and Operation Costs then due and payable. “**System Revenues**” consist primarily of all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Wastewater System excluding certain moneys as described herein.

Pursuant to the Indenture, the City may issue additional bonds (together with the Series 2013 Bonds, the “**Bonds**”) and incur other obligations (the “**Parity Obligations**”) secured by the pledge of and payable from the Trust Estate on a parity basis with the Series 2013 Bonds, and the City may also issue or incur other obligations secured by and payable from the Trust Estate on a basis junior and subordinate to the Series 2013 Bonds, other Bonds, and Parity Obligations (“**Subordinate Obligations**”), subject to the terms of the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.” The projected operating results for the Wastewater System include the issuance of approximately \$56 million of additional Bonds in Fiscal Year 2015-16. See “THE WASTEWATER SYSTEM - Projected Operating Results.”

If no Event of Default has occurred and is continuing under the Indenture, all Maintenance and Operation Costs are being and have been paid and are then current, and all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations have been paid, then the City may spend System Net Revenues for any lawful purpose of the City. Any System Net Revenues so spent by the City for a lawful purpose as described in the preceding sentence will no longer be subject to the lien of the Indenture.

The Series 2013 Bonds are limited obligations of the City and are secured by a pledge of and payable solely, both as to principal and interest and as to any premiums upon the redemption thereof, from the Trust Estate as provided in the Indenture, and the City is not obligated to pay the Series 2013 Bonds except from the Trust Estate as provided in the

Indenture. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Series 2013 Bonds or their interest. The Series 2013 Bonds are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or any of its income or receipts, except the Trust Estate as provided in the Indenture.

Rate Covenant

Pursuant to the Indenture, the City has covenanted that it will at all times during each Fiscal Year fix, prescribe, and collect rates, fees, and charges for the Wastewater Service that are reasonably estimated to yield System Net Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. “**Coverage Requirement**” means, for any Fiscal Year, an amount of System Net Revenues equal, in each case, to at least (1) 120% of the Debt Service on all Outstanding Bonds and Parity Obligations for such Fiscal Year; (2) 110% of the Debt Service on all Outstanding Bonds, Parity Obligations, and Subordinate Obligations for such Fiscal Year; and (3) 100% of all obligations of the City payable from System Net Revenues in such Fiscal Year. In fixing and prescribing such rates, fees, and charges, the City may make reasonable assumptions concerning contingencies that may affect System Revenues and the timing and amount of payments on Bonds, Parity Obligations, Subordinate Obligations, and any other obligations of the City that may become due and payable from System Revenues in such Fiscal Year. The City may make adjustments from time to time in such rates, fees, and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees, and charges then in effect unless the System Net Revenues from such reduced rates, fees, and charges will at all times be sufficient to meet the requirements set forth in this paragraph. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant.” In calculating Debt Service for purposes of the Coverage Requirement, the City may exclude payments on Obligations to the extent such payments are paid or expected to be paid from amounts allocated on the books of the City to the City’s Stormwater Drainage System (“**Stormwater Drainage System**”). The City may also make certain other assumptions and exclusions when calculating Debt Service for purposes of the Coverage Requirement. See APPENDIX D – “SUMMARY OF THE INDENTURE – Definitions.”

Outstanding Obligations

To finance a portion of the cost of certain improvements to the Wastewater System, since 1998 the City has entered into five separate Clean Water State Revolving Fund Loan Program Loan Contracts with the State, acting through the State Water Resources Control Board, which are currently outstanding the in the aggregate available principal amount of approximately \$24.1 million (the “**SRF Loans**”). Pursuant to their terms, the SRF loans are payable from System Net Revenues and also from revenues attributable to the “Stormwater Drainage System. However, if for any reason Stormwater Drainage System revenues are unavailable for payment of the SRF Loans, the City would be obligated to make such payments from System Net Revenues on parity with the Bonds. The City’s obligations with respect to the SRF Loans constitute Parity Obligations under the Indenture. The SRF Loans are scheduled to be paid in full by 2021. See “PAYMENT SCHEDULE” for currently estimated payments. The SRF Loans provide that all payments thereunder may be immediately due and payable in the event of material breach by the City that is not promptly cured. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Outstanding Parity Obligations” and “THE WASTEWATER SYSTEM – Interrelationship Between Wastewater System and Stormwater Drainage System.” See also “CERTAIN RISK FACTORS – Potential Acceleration of Parity Obligations and Liquidity Facility Bonds; No Acceleration of Bonds.”

The projected operating results for the Wastewater System include the issuance of approximately \$56 million of additional Bonds in fiscal year 2015-16. See “THE WASTEWATER SYSTEM - Projected Operating Results.”

In addition, the City has previously funded certain improvements to City assets (for the General Fund and other City utilities) by the issuance of bonds by the Sacramento City Financing Authority (“SCFA”) through the City’s Master Lease Program (as defined below in “THE WASTEWATER SYSTEM – Leasing of Certain Components of the Wastewater System”). In connection with the Master Lease Program, the City has leased certain components of the Wastewater System to SCFA and SCFA has subleased those components of the Wastewater System back to the City.

Pursuant to the Indenture, the City will covenant that it will not encumber any components of the Wastewater System under a City General Fund lease except for the components of the Wastewater System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease. However, this covenant does not prohibit the City from (1) improving, making additions to, rehabilitating, or replacing components of the Wastewater System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease; or (2) incurring additional obligations under any City General Fund lease that, as of the date of issuance of the Series 2013 Bonds, encumbers components of the Wastewater System.

Bond Reserve Fund

Upon the issuance of the Series 2013 Bonds, a Bond Reserve Fund will be established pursuant to the Indenture to secure the Series 2013 Bonds and all other Bonds designated to be secured by the Bond Reserve Fund by the City pursuant to a Supplemental Indenture. The Series 2013 Bonds, together with any other Bonds issued under the Indenture and so designated by the City (“**Participating Bonds**”), will be secured by the Bond Reserve Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Bond Reserve Fund.”

Rate Stabilization Fund

Pursuant to the Indenture, the City will establish and maintain on the City’s books a Rate Stabilization Fund. On the date of issuance of the Series 2013 Bonds, the City will allocate \$2.5 million of amounts then accounted for in the Wastewater Fund to the Rate Stabilization Fund. Upon compliance with the terms of the Indenture, from time to time thereafter the City may allocate to the Rate Stabilization Fund from current System Revenues such amounts as the City may reasonably determine, and the amount of available current System Revenues shall be reduced by the amount so allocated. The City may only allocate amounts accounted for in the Rate Stabilization Fund to the Wastewater Fund for inclusion in System Revenues for any Fiscal Year. Allocations to or from the Rate Stabilization Fund for each Fiscal Year shall be made before the end of the ninth month after the close of each Fiscal Year. All interest or other earnings upon amounts allocated to the Rate Stabilization Fund may be allocated to the Wastewater Fund and accounted for as System Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Stabilization Fund.”

Continuing Disclosure

The City has covenanted for the benefit of the Holders and Beneficial Owners of the Series 2013 Bonds to provide certain financial information and operating data relating to the Wastewater System by not later than the end of the ninth month following the end of the City’s Fiscal Year

(which as of the date of this Official Statement is June 30) (the “**Annual Report**”), commencing with the Annual Report for Fiscal Year 2012-13, and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of the enumerated events will be filed by the City with the Municipal Securities Rulemaking Board through its EMMA website. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is set forth in APPENDIX E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE” hereto. This covenant has been made in order to assist the Underwriter of the Series 2013 Bonds (the “**Underwriter**”) in complying with S.E.C. Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” for additional information, including information regarding the City’s history of compliance with previous continuing-disclosure undertakings.

Feasibility Consultant’s Report

In preparing this Official Statement, the City has relied, in part, upon studies, considerations, assumptions, and opinions set forth in the report furnished by Carollo Engineers, Inc., Sacramento, California, as feasibility consultant for the Series 2013 Bonds (the “**Feasibility Consultant**”), a copy of which is attached hereto as Appendix A (the “**Feasibility Consultant’s Report**”). See “FEASIBILITY CONSULTANT’S REPORT.” In the course of the preparation of the Feasibility Consultant’s Report by the Feasibility Consultant, the City provided a variety of information relating to the Wastewater System to the Feasibility Consultant, and the City and representatives of the Underwriter provided various comments and suggestions on drafts of the Feasibility Consultant’s Report.

The Feasibility Consultant has been providing utility financial assistance to the City since 2009, and the Feasibility Consultant’s project manager, while employed with another firm, led that firm’s engagement by the City to assist it in the development of the recommendations for rate increases for the Wastewater System adopted by the City Council in March 2012. Additionally, the Feasibility Consultant has also performed a variety of engineering, planning, and design assignments for the City, including the Wastewater System. The Feasibility Consultant is also currently serving as the design engineer for major projects for the City’s Water System.

Certain Risk Factors

See “CERTAIN RISK FACTORS” for a description of certain risks associated with an investment in the Series 2013 Bonds.

Other Matters

Copies of the Indenture will be available for inspection at the City’s offices in Sacramento, California, and will be available upon request and payment of duplication costs from the Trustee.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the Series 2013 Bonds are as follows:

Sources:

Principal Amount
Original Issue Premium
Total Sources

Uses:

Project Fund
Capitalized Interest Fund⁽¹⁾
Bond Reserve Fund
Costs of Issuance⁽²⁾
Total Uses

-
- (1) Includes interest accruing of the Series 2013 Bonds to March 1, 2014 in the amount of \$_____
- (2) Includes fees of Bond Counsel, Disclosure Counsel, the Trustee, Underwriter's discount, consulting fees, rating-agency fees, printing costs, and certain miscellaneous expenses.

PLAN OF FINANCE

As described herein, the proceeds of the Series 2013 Bonds will be used primarily for the purpose of providing funds to finance or reimburse the City for costs relating to the Series 2013 Project. See "THE SERIES 2013 PROJECT."

THE SERIES 2013 BONDS

General

The Series 2013 Bonds will be issued in fully registered form, without coupons, in denominations of \$5,000 or any integral multiple thereof (each, an "**Authorized Denomination**"), will be dated their date of delivery, and will bear interest from such date at the rates set forth on the inside cover of this Official Statement, payable on March 1 and September 1 of each year, commencing September 1, 2013 (each, an "**Interest Payment Date**"). Interest on the Series 2013 Bonds will be computed on the basis of a 360-day year, composed of twelve 30-day months.

The Series 2013 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("**DTC**," and, together with any successor securities depository, the "**Depository**"). DTC will act as Depository for the Series 2013 Bonds. Individual purchases will be made in book-entry form. Purchasers will not receive a bond certificate representing their beneficial ownership interest in Series 2013 Bonds. So long as Cede & Co. is the registered owner of the Series 2013 Bonds, as nominee of DTC, references herein to Bondholders, Holders, or owners of the Series 2013 Bonds will mean Cede & Co. and will not mean the Beneficial Owners of Series 2013 Bonds.

So long as Cede & Co. is the registered owner of the Series 2013 Bonds, principal of and interest on the Series 2013 Bonds will be payable by wire transfer of same day funds by the Trustee to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC

Participants for subsequent disbursement to Beneficial Owners of the Series 2013 Bonds. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM.”

If the use of the book-entry system is discontinued, then principal of the Series 2013 Bonds will be payable upon surrender thereof at the designated office of the Trustee. All interest payable on the Series 2013 Bonds will be paid by check mailed by first-class mail on each Interest Payment Date to the person in whose name each Series 2013 Bond is registered in the registration books maintained by the Trustee as of the close of business on the 15th day of the calendar month immediately preceding the Interest Payment Date (each, a “**Record Date**”), provided that registered owners of \$1,000,000 or more in aggregate principal amount of Series 2013 Bonds may request payment by wire transfer to an account within the United States, such request to be submitted in writing and received by the Trustee on or before the applicable Record Date for such Interest Payment Date, in accordance with the provisions set forth in the Indenture.

Redemption Provisions

Optional Redemption. The Series 2013 Bonds maturing on and after September 1, 20__, are subject to redemption prior to their stated maturities, at the option of the City, from any source of available funds, on any date on or after September 1, 20__, as a whole or in part by such maturity or maturities as may be specified by the City (and by lot within a maturity), at a Redemption Price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Redemption. The Series 2013 Bonds maturing on September 1, 20__, are also subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2013 Bonds on each September 1 on and after September 1, 20__, at a redemption price equal to the principal amount of the Series 2013 Bonds to be redeemed plus accrued interest, if any, to the redemption date, without premium. Such Mandatory Sinking Account Payments will be sufficient to redeem (or pay at maturity) the following principal amounts of such Series 2013 Bonds on the dates set forth below (except that if any such Series 2013 Bonds are optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Account Payments for such Series 2013 Bonds will be revised as directed by the City):

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
---	--

* Final Maturity

The Series 2013 Bonds maturing on September 1, 20__, are also subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2013 Bonds on each September 1 on and after September 1, 20__, at a redemption price equal to the principal amount of the Series 2013 Bonds to be redeemed plus accrued interest, if any, to the redemption date, without premium. Such Mandatory Sinking Account Payments will be sufficient to redeem (or pay at maturity) the following principal amounts of such Series 2013 Bonds on the dates set forth below

(except that if any such Series 2013 Bonds are optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Account Payments for such Series 2013 Bonds will be revised as directed by the City):

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
---	---

* Final Maturity

Selection of Series 2013 Bonds for Redemption. While the Series 2013 Bonds are in book-entry form and so long as DTC acts as Depository for the Series 2013 Bonds, whenever provision is made for redemption of less than all of the Series 2013 Bonds of any maturity, applicable provisions for selection of Series 2013 Bonds to be redeemed under DTC’s book-entry system shall apply. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM.” If the use of the book-entry system is discontinued, then whenever provision is made for redemption of less than all of the Series 2013 Bonds of any maturity, the Trustee shall select the Series 2013 Bonds of such maturity to be redeemed by lot in authorized denominations.

Notice of Redemption; Conditional Notice. The Trustee shall give notice of redemption not less than 20 days nor more than 60 days prior to the redemption date to each registered owner of a Series 2013 Bond designated for redemption. The Trustee shall also give notice of redemption to the Repository. Neither failure by the Trustee to give notice to the Repository, nor failure of any registered owner or the Repository to receive such notice, nor any defect therein will affect the sufficiency or validity of the proceedings for the redemption of any of the Series 2013 Bonds.

With respect to any notice of optional redemption of Series 2013 Bonds, unless, upon the giving of such notice, such Series 2013 Bonds are deemed to have been paid within the meaning of the provisions of the Indenture, such notice shall state (1) that redemption will be conditional upon the receipt by the Trustee on or before the date fixed for redemption of amounts sufficient to pay the principal of, and premium (if any) and interest on, such Series 2013 Bonds to be redeemed, and (2) that if such amounts are not so received, then the notice shall be of no force and effect and the City shall not be required to redeem such Series 2013 Bonds. The City may also instruct the Trustee to provide conditional notice of optional redemption, which may be conditioned on the occurrence of any other event, if such notice states that if such event does not occur then the notice shall be of no force and effect and the City shall not be required to redeem such Series 2013 Bonds. If a notice of optional redemption contains such a condition and such amounts are not so received or such event does not occur, then the optional redemption shall not be made, and the Trustee shall, within a reasonable time thereafter, give notice to the Holders to the effect that such amounts were not so received or such event did not occur and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given. Such failure to optionally redeem such Bonds shall not constitute an Event of Default pursuant to the Indenture.

The City may rescind any notice of optional redemption given pursuant to the Indenture by giving the Trustee notice at least five Business Days before the date specified for redemption. As

soon as practicable thereafter, the Trustee shall give a notice of rescission in the same manner, and to the same parties, as notice of such redemption was given.

So long as the Series 2013 Bonds are in book-entry form, all notices of redemption and all other notices described under this caption shall be delivered to DTC, as Depository. Neither the City nor the Trustee can or do give any assurance that any such notice will be distributed by DTC to Beneficial Owners or that any such notice will be distributed on a timely basis. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM.”

Cessation of Interest. Interest on all Series 2013 Bonds for which notice of redemption has been given pursuant to the provisions of the Indenture and for which funds have been provided to the Trustee for the payment of the Redemption Price thereof, together with interest accrued to the redemption date thereon, shall cease to accrue on the redemption date. Such Series 2013 Bonds shall cease to be entitled to any benefit or security under the Indenture on the redemption date, and the registered owners of such Series 2013 Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price and accrued interest to the redemption date from the funds provided to the Trustee therefor.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General; Pledge of the Trust Estate

The Bonds, including the Series 2013 Bonds, are limited obligations of the City secured by a pledge of and payable solely from the Trust Estate, which consists of (1) all System Net Revenues collected after the date of issuance of the Series 2013 Bonds; (2) all funds and accounts held by the Trustee under the Indenture and any Supplemental Indenture (other than the Rebate Fund, all Letter of Credit Funds, and all Purchase Funds) and all investments, money, instruments, and other property credited thereto or on deposit therein; (3) all investment earnings on amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts deposited in the Rebate Fund, any Letter of Credit Fund, and any Purchase Fund; (4) all Swap Revenues; (5) all Subsidy Payments; and (6) all proceeds of the foregoing, whether now existing or hereafter arising, subject to the provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

“**System Net Revenues**” means System Revenues remaining after payment of Maintenance and Operation Costs then due and payable.

“**System Revenues**” means all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Wastewater System determined in accordance with generally accepted accounting principles, consistently applied, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, connection fees, sewer development fees, charges, standby charges, capacity charges, or other moneys derived by the City from the wastewater services or facilities, and commodities or byproducts, sold, furnished, or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Wastewater System by or pursuant to law; (2) any amount received from the levy or collection of taxes that are solely available and are earmarked for the support of the operation of the Wastewater System; (3) allocations from the Rate Stabilization Fund to the Wastewater Fund; and (4) grants for maintenance and operations to the extent that the restrictions for the use thereof do not preclude them from being applied to the payment of Maintenance and Operation Costs or the

Obligations; provided, however, that System Revenues shall exclude in all cases (a) customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City and (b) any proceeds of the voter-approved general tax imposed on the gross revenues of the Wastewater System from user fees and charges, which proceeds are paid into the City's General Fund pursuant to Section 3.20.010 of the Sacramento City Code (the "**City Code**"). As provided in the Indenture, the amount of available System Revenues is reduced by the amount of System Revenues allocated to the Rate Stabilization Fund. See "– Rate Stabilization Fund" below.

"Maintenance and Operation Costs" means costs spent or incurred by the City for maintaining and operating the Wastewater System, calculated in accordance with generally accepted accounting principles used by the City consistently applied, including but not limited to the expenses of maintenance, repair, billing and collection, and other expenses incurred to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City, salaries and wages of employees, payments to employees retirement systems, overhead, taxes (if any), fees of auditors, accountants, attorneys, engineers, or other consultants, and insurance premiums, in each case as attributable to the Wastewater System, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions, or improvements to the Wastewater System that under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, and (4) charges for the payment of Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations.

The Indenture provides that the pledge of the Trust Estate constitutes a lien on and security interest in the Trust Estate to the extent set forth in, and in accordance with, the Indenture.

If no Event of Default has occurred and is continuing under the Indenture, all Maintenance and Operation Costs are being and have been paid and are then current, and all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations have been paid then the City may spend System Net Revenues for any lawful purpose of the City. Any System Net Revenues so spent by the City for a lawful purpose as described in the preceding sentence will no longer be subject to the lien of the Indenture.

The Series 2013 Bonds are limited obligations of the City and are secured by a pledge of and payable solely, both as to principal and interest and as to any premiums upon the redemption thereof, from the Trust Estate as provided in the Indenture, and the City is not obligated to pay the Series 2013 Bonds except from the Trust Estate as provided in the Indenture. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Series 2013 Bonds or their interest. The Series 2013 Bonds are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or any of its income or receipts, except the Trust Estate as provided in the Indenture.

Wastewater Fund; Application of System Revenues

So long as any Bonds are Outstanding or Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or any other amounts payable under the Indenture remain unpaid, the City covenants and agrees that all System Revenues received by it shall be accounted for when and as received in the Wastewater Fund, which the City covenants and agrees to maintain on the City's books, and all money accounted for within the Wastewater Fund shall be applied and used only as provided in the Indenture, and the Wastewater Fund shall be accounted for separate and apart from all other moneys, funds or other resources of the City. The City may, to the extent provided in the Indenture, allocate amounts accounted for in the Wastewater Fund to the Rate Stabilization Fund or allocate amounts accounted for in the Rate Stabilization Fund to the Wastewater Fund. From amounts accounted for within the Wastewater Fund, the City shall pay, in the following order of priority: first, to the applicable payee or as otherwise required, all Maintenance and Operation Costs (including amounts reasonably required by the City to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not immediately required) as they become due and payable; and second, to the Trustee on or before each date the Trustee is required to make any transfer or deposit from the Revenue Fund as described below under the caption "Allocation of Revenues", such amount as is required for the Trustee to make the transfers and deposits required to be made by the Trustee on such date including all amounts of principal, purchase price, interest, and Redemption Price then due and payable with respect to the Bonds. If (a) no Event of Default has occurred and is continuing, (b) all Maintenance and Operation Costs are being and have been paid and are then current, and (c) all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid, then all money accounted for in the Wastewater Fund, and the proceeds thereof, will be available for any lawful purpose of the City.

Allocation of Revenues

The Trustee shall deposit in the Revenue Fund established under the Indenture all amounts received by it from the City pursuant to the Indenture, when and as received by the Trustee.

The Trustee shall set aside on each date set forth below the moneys in the Revenue Fund in the following respective funds in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of moneys in the Revenue Fund sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that (i) on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee pursuant to the Indenture (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations), (ii) payments on Interest Rate Swap Agreements that constitute Parity Obligations shall be payable from the Interest Fund and the required deposits below shall be adjusted to include payments on such Interest Rate Swap Agreements (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations) and (iii) in the event any of the deposits or transfers requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments shall be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available moneys:

First Priority - Interest Fund. No later than the Business Day prior to each Interest Payment Date, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to the aggregate amount of interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest on the Interest Payment Date). No deposit need be made into the Interest Fund with respect to any Bonds if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Date and on each Interest Payment Date any excess amounts in the Interest Fund not needed to pay interest on such Interest Payment Date shall be transferred to the Revenue Fund (excepting any moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future Interest Payment Dates following such Interest Payment Date).

If Liquidity Facility Bonds are outstanding at the time of any required deposits to the Interest Fund, such deposits shall take into account and include the Liquidity Facility Rate on Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds.

Second Priority - Principal Fund; Sinking Accounts. No later than the Business Day prior to each Principal Payment Date, the Trustee shall set aside in the Principal Fund an amount equal to (a) the aggregate amount of Bond Obligation becoming due and payable on such Principal Payment Date on the Outstanding Serial Bonds of all Series plus (b) the aggregate of the Mandatory Sinking Account Payments to be paid on such Principal Payment Date into the respective Sinking Accounts for the Term Bonds of all Series. If, however, the City certifies to the Trustee that any principal payments are expected to be paid from amounts on deposit in a Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with Mandatory Sinking Account Payments shall be made without priority of any payment over any other such payment.

In the event that moneys in the Revenue Fund shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any Principal Payment Date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series on such Principal Payment Date plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said amount of Bond Obligation on such Serial Bonds and said Bond Obligation of and redemption premium on such Term Bonds shall bear to each other. In the event that moneys in the Revenue Fund shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account on such date bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts on such date.

No deposit need be made into the Principal Fund on any date so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms on the immediately succeeding Principal Payment Date plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made on such Principal Payment Date. On each Principal Payment Date or as soon as practicable thereafter any excess amounts in the Principal Fund not needed to pay Bond Obligation or Mandatory Sinking Account Payments on such Principal Payment Date shall be transferred to the Revenue Fund.

If any Liquidity Facility Bonds are outstanding at the time of any required deposits to the Principal Fund, such deposits shall take into account and include any amortizations or redemptions of any Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds. For purposes of the provisions above relating to the Principal Fund, Liquidity Facility Bonds shall be treated as Serial Bonds with maturity dates on the payment dates of any amortization or redemptions.

Third Priority - Reserve Funds. Upon the occurrence of any deficiency in any Reserve Fund, the Trustee shall make such deposit to such Reserve Fund (including such amounts as are required by the Indenture to replenish withdrawals on any Reserve Facility), as is required pursuant to the Indenture, each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

Fourth Priority - Subordinate Obligations Fund. After any transfers described above that are required to be made on a given date have been made, the Trustee shall deposit in the Subordinate Obligations Fund such amount as the City shall specify in writing is necessary to make payments due and payable on such date with respect to Subordinate Obligations then outstanding.

Fifth Priority - Fees and Expenses Fund. After the transfers described above that are required to be made on a given date have been made, the Trustee shall deposit in the Fees and Expenses Fund the amounts necessary for payment of Fee and Expense Obligations owing on such date.

Transfer to the City. If no Event of Default has occurred and is continuing and all payments then due and payable by the City pursuant to the Indenture have been paid, then, except as the City shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, amounts remaining in the Revenue Fund after all transfers described above that are required to be made on a given date have been made, and the proceeds thereof, will be transferred to the City on the same Business Day or as soon as practicable thereafter. The City may use and apply such amounts when received by it for any lawful purpose of the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

Rate Covenant

Pursuant to the Indenture, the City has covenanted that it will at all times during each Fiscal Year fix, prescribe, and collect rates, fees, and charges for the Wastewater Service that are reasonably estimated to yield System Net Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. “**Coverage Requirement**” means, for any Fiscal Year, an amount of System Net Revenues equal, in each case, to at least (i) 120% of the Debt Service on all Outstanding Bonds and Parity Obligations for such Fiscal Year; (ii) 110% of the Debt Service on all Outstanding Bonds, Parity Obligations, and Subordinate Obligations for such Fiscal Year; and (iii) 100% of all obligations of the City payable from System Net Revenues in such Fiscal Year. This obligation of the City in the Indenture is referred to herein as the “**Rate Covenant.**” In fixing and prescribing such rates, fees, and charges, the City may make reasonable assumptions concerning contingencies that may affect System Revenues and the timing and amount of payments on Bonds, Parity Obligations, Subordinate Obligations, and any other obligations of the City that may become due and payable from System Revenues in such Fiscal Year. The City may make adjustments from time to time in such rates, fees, and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees, and charges then in effect unless the System Net Revenues from such reduced rates, fees, and charges will at all times be sufficient to meet the

requirements of the Rate Covenant. In calculating Debt Service for purposes of the Coverage Requirement, the City may exclude payments on Obligations to the extent such payments are paid or expected to be paid from amounts allocated on the books of the City to the City's storm drainage enterprise fund. The City may also make certain other assumptions and exclusions when calculating Debt Service for purposes of the Coverage Requirement. See APPENDIX D – "SUMMARY OF THE INDENTURE – Definitions."

Bond Reserve Fund

Upon the issuance of the Series 2013 Bonds, a Bond Reserve Fund will be established pursuant to the Indenture to secure the Series 2013 Bonds and all other Bonds designated to be secured by the Bond Reserve Fund by the City pursuant to a Supplemental Indenture. The Series 2013 Bonds, together with any other Bonds issued under the Indenture and so designated by the City ("**Participating Bonds**"), will be secured by the Bond Reserve Fund. Upon issuance of the Series 2013 Bonds, a portion of the proceeds of the sale of the Series 2013 Bonds will be deposited into the Bond Reserve Fund so that the amount deposited in the Bond Reserve Fund will equal the initial Bond Reserve Requirement (as defined below). The Bond Reserve Fund is required to be maintained in an amount equal to the Bond Reserve Requirement. As of the date of issuance of the Series 2013 Bonds, the Bond Reserve Fund will be fully funded in the amount of \$_____. Any amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Requirement shall be transferred to the Revenue Fund yearly on the Business Day following each September 1. The City may establish other bond reserve funds relating to a particular Series of Bonds that would only be available to secure that particular Series of Bonds as well as other Series of Bonds as determined by the City, each a "**Bond Series Reserve Fund**."

"**Bond Reserve Requirement**" means (1) with respect to the Bond Reserve Fund, as of any date of calculation, an amount equal to 50% of the Maximum Annual Debt Service for the Participating Bonds, as computed and determined by the City and specified in writing to the Trustee; provided, that with respect to the issuance of additional Participating Bonds if the Bond Reserve Fund would have to be increased by an amount greater than 10% of the stated principal amount of such additional Participating Bonds (or, if the issue has more than a de minimis amount of original issue discount or premium, of the issue price of such Bonds) then the Bond Reserve Requirement shall be such lesser amount as is determined by a deposit of such 10%; and (2) with respect to any Bond Series Reserve Fund, the amount specified as such in the Supplemental Indenture establishing such Bond Series Reserve Fund.

In lieu of depositing cash to satisfy a portion or all of the Bond Reserve Requirement or in replacement of funds then on deposit in the Bond Reserve Fund (which will be transferred by the Trustee to the City), the City may obtain a letter of credit, insurance policy or surety bond, or any combination thereof (each a "**Reserve Facility**"), to satisfy a portion or all of such Bond Reserve Requirement. If an insurance company that has provided a Reserve Facility in the form of an insurance policy or surety bond becomes the subject of an insolvency proceeding, it may be able to retain its rights to control remedies under the transaction documents and to direct the Trustee, and its rights to consent to amendments of the transaction documents, even if it is insolvent or not paying claims as required by the Reserve Facility. If an insurer is in an insolvency proceeding, it may be able to require the City to reimburse the insurer before paying amounts due on the Bonds, regardless of what the transaction documents provide.

The Trustee is to draw on the Bond Reserve Fund to the extent necessary to fund any deficiency in the Interest Fund or the Principal Fund with respect to the Participating Bonds. Draws

on any Reserve Facilities on which there is available coverage are to be made on a pro rata basis after applying all available cash and investments in the Bond Reserve Fund. The City is to repay, solely from System Net Revenues, any draws under the Bond Reserve Fund, including any draws on Reserve Facilities. See APPENDIX D – “SUMMARY OF THE INDENTURE.”

Outstanding Parity Obligations

To finance a portion of the cost of certain improvements to the Wastewater System, since 1997 the City has entered five separate Clean Water State Revolving Fund Loan Program Loan Contracts with the State, acting through the State Water Resources Control Board (the “**SRF Loans**”), which are currently outstanding in the aggregate available principal amount of approximately \$24.1 million. Pursuant to their terms, the SRF loans are payable from System Revenues and also from revenues attributable to the City’s Stormwater Drainage System. The City currently pays approximately 75% of the debt service with respect to the SRF Loans from Stormwater Drainage System revenues and currently plans to continue to do so in the future. However, if for any reason Stormwater Drainage System revenues are unavailable for payment of the SRF Loans, the City would be obligated to make such payments from System Net Revenues on parity with the Bonds. See “THE WASTEWATER SYSTEM – Interrelationship Between Wastewater System and Stormwater Drainage System.”

The City’s obligations with respect to the SRF Loans constitute Parity Obligations under the Indenture. The SRF Loans are scheduled to be paid in full by 2021. See “PAYMENT SCHEDULE” for currently estimated payments. The SRF Loans provide that all payments thereunder may be immediately due and payable in the event of material breach by the City that is not promptly cured, including material breaches of its obligations to operate and maintain the Wastewater System, to maintain insurance, and to comply with applicable law. See “CERTAIN RISK FACTORS – Potential Acceleration of Parity Obligations and Liquidity Facility Bonds; No Acceleration of Bonds.”

Pursuant to the Indenture, payments paid or expected to be paid from revenues attributable to the City’s Stormwater Drainage System are excluded from Debt Service, including for purposes of the Rate Covenant and the provisions of the Indenture relating to the issuance of additional Obligations.

Additional Bonds, Parity Obligations, Subordinate Obligations and Fee and Expense Obligations

Additional Bonds. Subsequent to the issuance of the Series 2013 Bonds, the City may, by Supplemental Indenture, issue one or more additional Series of Bonds that, subject to the provision of the Indenture permitting the application thereof for the purposes of the terms and conditions set forth in the Indenture, are secured by a pledge of and payable from the Trust Estate equally and ratably with the Series 2013 Bonds, including Bonds issued to refund any Bonds then Outstanding (such Bonds being referred to as “**Refunding Bonds**”). Additional Series of Bonds may be issued upon compliance by the City with the provisions set forth in the Indenture and subject to certain specific conditions precedent set forth in the Indenture.

Conditions precedent to the issuance of an additional Series of Bonds include but are not limited to the following:

- (a) No Event of Default shall have occurred and then be continuing (or the issuance of such additional Series of Bonds will cure any such Event of Default).

(b) The Supplemental Indenture providing for the issuance of such Series shall state whether the Bonds of such Series are Participating Bonds. If the Bonds of such Series are Participating Bonds, the Supplemental Indenture shall require a deposit of the amount, if any, necessary to increase the amount on deposit in the Bond Reserve Fund to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Participating Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds. Subject to the provisions of the Indenture, in the event a Supplemental Indenture providing for the issuance of such Series shall require either (i) the establishment of a Bond Series Reserve Fund to provide additional security for such Series of Bonds, or (ii) that the balance on deposit in an existing Bond Series Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Series Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, then the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. The deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the City or from both such sources or may be made in the form of a Reserve Facility.

(c) The aggregate principal amount of Bonds issued shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(d) The City shall deliver to the Trustee a Certificate of the City, which Certificate shall also set forth the computations upon which such Certificate is based, certifying either of the following:

(1) The System Net Revenues for either the most recent Fiscal Year for which audited financial statements are available or for any other period of twelve (12) consecutive months (selected by the City) during the eighteen (18) months immediately preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least equal to the Coverage Requirement for the most recently completed Fiscal Year, including in the calculation of the Coverage Requirement for this purpose the Average Annual Debt Service for the additional Series of Bonds to be issued. For the purpose of providing such Certificate, the City may adjust the System Net Revenues for such Fiscal Year or twelve (12) month period, as the case may be, to reflect:

(A) an allowance for System Net Revenues that would have been derived from each new connection to the Wastewater System that was made prior to the issuance of such additional Series of Bonds but which was not in existence, during all or any part of such Fiscal Year or twelve (12) month period under consideration, in an amount equal to 90% of the estimated additional System Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or twelve (12) month period, and

(B) an allowance for System Net Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Wastewater Service which became effective prior to the issuance of such additional Series of Bonds but which was not in effect, during all or any part of such Fiscal Year or twelve (12) month period, in an amount equal to the estimated additional System Net Revenues that would have been derived from such increase in rates, fees and charges

if it had been in effect prior to the beginning of such Fiscal Year or twelve (12) month period; or

(2) The estimated System Net Revenues for each of the five Fiscal Years next following the earlier of (i) the end of the period during which interest on the additional Series of Bonds is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the additional Series of Bonds is to be issued, or (ii) the date on which substantially all projects financed with the proceeds of any Bonds, including the additional Series of Bonds to be issued, are expected to commence operations will be at least equal to the Coverage Requirement for each such Fiscal Year. For the purpose of providing such Certificate, the City may adjust the System Net Revenues to reflect:

(A) an allowance for System Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for Wastewater Service which have been adopted by the City and which will be in effect during all or any portion of the period for which such estimates are provided; and

(B) an allowance for System Net Revenues that are estimated to be derived from new customers of the Wastewater System anticipated to be served by any additions or improvements to or extensions of the Wastewater System reasonably expected to become available during all or any portion of the period for which such estimates are provided in an amount equal to 90% of the additional System Net Revenues that are estimated to be derived from such customers.

For purposes of any computation pursuant to (2), with respect to Maintenance and Operation Costs, the City shall use such assumptions (which shall be set forth in such Certificate) as the City believes to be reasonable, taking into account: (i) historical Maintenance and Operation Costs, (ii) Maintenance and Operation Costs associated with the additions or improvements to or replacements or extensions of the Wastewater System to be financed with the proceeds of such additional Series of Bonds and any other new additions or improvements to or extensions of the Wastewater System during any period for which estimates are provided and (iii) such other factors, including inflation and changing operations or policies of the City, as the City believes to be appropriate.

In calculating Debt Service for purposes of the Coverage Requirement, the City may exclude payments on Obligations to the extent such payments are paid or expected to be paid from amounts allocated on the books of the City to the City's storm drainage enterprise fund. The City may also make certain other assumptions and exclusions when calculating Debt Service for purposes of the Coverage Requirement. See APPENDIX D – "SUMMARY OF THE INDENTURE – Definitions."

In addition, Refunding Bonds may be issued without satisfaction of the tests set forth in subsection (d) above if Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds.

Parity Obligations. In addition to additional Bonds, the City may also issue or incur other obligations, including Interest Rate Swap Agreements (but excluding termination payments on Interest Rate Swap Agreements which shall be secured as Fee and Expense Obligations), secured by a pledge of and payable from the Trust Estate on a parity basis with the Bonds (including the Series

2013 Bonds), subject to the provisions of the Indenture, provided that certain conditions precedent to the issuance or incurrence of such Parity Obligations, as set forth in the Indenture, are satisfied.

Conditions precedent to the issuance or incurrence of Parity Obligations include, but are not limited to, the following:

(a) No Event of Default shall have occurred and then be continuing (or the issuance of such Parity Obligations will cure any such Event of Default), as evidenced by the delivery to the Trustee of a Certificate of the City to that effect; and

(b) The City shall deliver to the Trustee a Certificate of the City, which Certificate shall also set forth the computations upon which such Certificate is based, certifying one of the following:

(A) Such Parity Obligations are being issued or incurred for purposes of refunding and the City has determined that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance or incurrence of such Parity Obligations is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance or incurrence of such Parity Obligations.

(B) The requirements set forth in the Indenture relating to the issuance of Additional Bonds shall have been satisfied with respect to such Parity Obligations; provided, however that if the Parity Obligation being issued or incurred consists of an Interest Rate Swap Agreement that relates to a Series of Bonds or Parity Obligations (excluding fees and expenses and termination payments on such Interest Rate Swap Agreement), the City shall be deemed to have complied with this requirement, with respect to such Interest Rate Swap Agreement to the extent that the Series of Bonds or Parity Obligations to which the Interest Rate Swap Agreement relates (x) satisfies this requirement after taking into account the adjustment of Debt Service on such Series of Bonds or Parity Obligations to reflect the impact of the Interest Rate Swap Agreement (in the case of Interest Rate Swap Agreements entered into concurrently with, or subsequent to, the issuance of such Bonds or Parity Obligations), or (y) is expected to satisfy this requirement after taking into account the adjustment of Debt Service on such Series of Bonds or Parity Obligations to reflect the impact of the Interest Rate Swap Agreement (in the case of Interest Rate Swap Agreements entered into in advance of the issuance of such Bonds or Parity Obligations); or

(C) Such Parity Obligations consist of Reimbursement Obligations relating to Bonds or Parity Obligations.

Subordinate Obligations. Except to the extent restricted by the Indenture, the City may issue or incur other obligations, including Interest Rate Swap Agreements (but excluding termination payments on the Interest Rate Swap Agreements which shall be secured as Fee and Expense Obligations) secured by a pledge of and payable from the Trust Estate on a basis junior and subordinate to the Series 2013 Bonds, any additional Bonds and Parity Obligations.

Fee and Expense Obligations. The City may also issue or incur obligations secured by a pledge of and payable from the Trust Estate on a basis junior and subordinate to the Subordinate Obligations. See APPENDIX D – “SUMMARY OF THE INDENTURE.”

Rate Stabilization Fund

Pursuant to the Indenture, the City will establish and maintain on the City's books a fund within the Wastewater Fund to be known as the "**Rate Stabilization Fund.**" On the date of issuance of the Series 2013 Bonds, the City will allocate \$2.5 million of amounts then accounted for in the Wastewater Fund to the Rate Stabilization Fund. Upon compliance with the terms of the Indenture, from time to time thereafter the City may allocate to the Rate Stabilization Fund from current System Revenues such amounts as the City may reasonably determine, and the amount of available current System Revenues shall be reduced by the amount so allocated. The City may only allocate amounts accounted for in the Rate Stabilization Fund to the Wastewater Fund for inclusion in System Revenues for any Fiscal Year. Allocations to or from the Rate Stabilization for each Fiscal Year shall be made before the end of the ninth month after the close of each Fiscal Year. All interest or other earnings upon amounts allocated to the Rate Stabilization Fund may be allocated to the Wastewater Fund and accounted for as System Revenues.

Separate Utility Systems

The City may create, acquire, construct, finance, own, and operate one or more additional systems not constituting any part of the then-existing Wastewater System for wastewater service or other commodity or service, and the revenues of that separate utility system shall not be included in the System Revenues and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand such separate utility system. The System Net Revenues shall not be pledged by the City to the payment of any obligations of a separate utility system except in accordance with the other provisions of the Indenture.

PAYMENT SCHEDULE

Debt Service with respect to the outstanding SRF Loans and the Series 2013 Bonds is set forth below. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Obligations.”

Fiscal Year Ending June 30	SRF Loans⁽¹⁾		Series 2013 Bonds		Total
	Principal	Interest	Principal	Interest	
2013	\$703,215.48	\$156,018.99			
2014	719,552.99	139,681.49			
2015	736,272.45	122,962.02			
2016	753,382.86	105,851.61			
2017	770,893.42	88,341.06			
2018	788,777.58	70,420.92			
2019	765,738.81	52,082.50			
2020	783,430.10	34,390.83			
2021	715,457.77	16,287.97			
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
Totals	\$6,736,721.46	\$786,037.39			

⁽¹⁾ Represents 25% of total debt service, which is the portion of total debt service payable with respect to SRF Loans that the City expects to pay from System Net Revenues. However, as described in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Obligations,” 100% of debt service with respect to the SRF Loans may be payable from System Net Revenues. See also “THE WASTEWATER SYSTEM – Interrelationship of Wastewater System and Stormwater Drainage System.”

THE WASTEWATER SYSTEM

General

The City is located at the confluence of the Sacramento and American Rivers in the northern part of the Central Valley and is approximately 75 air miles northeast of San Francisco. Settled in the late 1830s and incorporated in 1849, the City became the location of the capital of the State in 1854. Today, State government employees and government-related activities contribute substantially to the City's economy.

The City operates under a charter that currently provides for an elected nine-member City Council including an elected Mayor. There are no other elected City officials. The City Council appoints the City Manager, the City Attorney, the City Clerk, and the City Treasurer to carry out its adopted policies. The Mayor is chairperson of the City Council and is elected in at-large City elections. Members of the City Council serve four-year terms and are elected from eight geographic council districts.

As of January 1, 2013, the City had an estimated population of 473,509.

Service Area

The Wastewater System began providing service in the City in 1854 and now provides wastewater collection and conveyance services to approximately 76,500 residences and businesses in the City. The balance of the residences and businesses (primarily in the northwest and southeast sections of the City) receive wastewater collection and conveyance services from SASD.

Management

The Wastewater System is administered by the City Department of Utilities (the “**Department**”), which also administers the City's water treatment and distribution system (the “**Water System**”) and Stormwater Drainage System. The Wastewater System and the Water System are financially independent from each other. Following are biographies of key management personnel:

Dave Brent, Director – Mr. Brent has over 26 years of experience in water resources, including more than 21 years with the Department. He has held a variety of positions with the Department, starting in 1991 as the Senior Engineer managing the City's municipal stormwater management program. Mr. Brent also served as the Engineering Services Manager from 2002 to 2010 and as Government Affairs Coordinator from 2010 until his appointment as Director of Utilities in September 2011. He has a Bachelor of Science in Civil Engineering from California State University, Sacramento and is a licensed Professional Engineer in the State.

Bill Busath, Engineering Services Division Manager – Mr. Busath has over 16 years of experience in the design, construction, operation, and management of water, drainage, and wastewater systems with the Department. He has held several positions in the Department, including managing the City's stormwater-management and floodplain-management programs. Mr. Busath has been the Manager of the Engineering Services Division for almost two years. He holds a Bachelor of Science in Civil Engineering and a Master of Science in Engineering Management from California State University, Sacramento, and has been a licensed Professional Engineer for 18 years.

Michael Malone, Field Services Manager – Mr. Malone has over 22 year of experience in underground utility management. He has served in several capacities with the Department and the San Jose Water Company including Water and Wastewater Superintendent and Senior Maintenance Supervisor. Mr. Malone has been in the position of Field Services Manager since January 2008 and is also the acting Plant Services Manager. He holds a Bachelor of Arts in Management from Saint Mary’s College and a State of California Water Distribution Grade 3 Certification, and is a member of the American Water Works Association and is the current 2-Year Director of the local American Public Works Association chapter.

Jamille Moens, Business Services Manager – Ms. Moens has over 25 years of experience in finance and administration as well as policy and systems analysis. She has worked in both the private and public sectors in the United States and internationally. Ms. Moens has been the Business Services Manager for over four years and oversees the finance, billing, and customer service operations for the Department. She holds a Bachelor of Science in Industrial and Labor Relations from Cornell University and a Master of Arts in Political Science from Stanford University. She is a registered Project Management Professional.

See APPENDIX A—“FEASIBILITY CONSULTANT’S REPORT” for a further description of City personnel and management.

Employees

During Fiscal Year 2012-13, the City has assigned 510.5 employees to the Department, many of whom perform work for more than one of the Department’s utilities. Employee costs of the Department are allocated by the City among the various utilities. For Fiscal Year 2011-12, the Wastewater System was allocated approximately 24% of Department employee costs. Employees assigned to the Department are represented by the following Bargaining Units with the following Memorandum of Understanding expiration:

Bargaining Unit	Number of Employees	Expiration
Western Council of Engineers (WCE)	13	June 29, 2013*
UA Local 447 Plumbers & Pipefitters Local Union	170	June 24, 2016
Stationary Engineers Local 39	204.5	December 27, 2013
Sac Sierra Building and Construction Trades, rep unit 6	53	June 28, 2013*
Sacramento City Exempt Employees Association (SCXEA)	66	June 27, 2014
Non-Represented	4	

*The City is currently in negotiations with these Bargaining Units.

Wastewater System Facilities

Other than the main trunklines (which are operated and maintained by SRCSD, as described below), wastewater collection within the City boundaries is provided by both the City and SASD. SASD maintains approximately 40 percent of the public collection system within the City limits, primarily in the northwest and southeast sections. The Wastewater System comprises the remaining portion of the public collection system, which includes a combined sewer system (“CSS”) receiving

wastewater and stormwater in the same pipe network in the older central City area serving an area of approximately 7,545 acres with approximately 257 miles of 4- to 120-inch-diameter pipes. (In addition to the wastewater and stormwater flows from those 7,545 acres, the CSS also receives wastewater flows from approximately 3,700 acres encompassing the eastern section of downtown, the River Park area, the California State University, and the most easterly areas of the City.) The separated sewer system (“**SSS**”) is located primarily in the northeast, east, and southwest sections of the City, serving an area of about 20,750 acres with approximately 570 miles of 4- to 45-inch-diameter pipes. The Wastewater System also includes two wet-weather detention and treatment facilities—the Combined Wastewater Treatment Plant (“**CWTP**”) and the Pioneer Reservoir—as well as major pumping facilities.

Combined Sewer System. The older, central areas of the City are served by a collection system, parts of which built well over 100 years ago, that combines sewage with stormwater flows into a single network of pipes, the CSS. The City stopped expanding the CSS service area in 1946.

The CSS collects and conveys wastewater and stormwater to two pump station facilities: Pump Station 1/1A and Pump Station 2/2A. Pump Stations 1, 1A, and 2 are owned and operated by the City, while Pump Station 2A is owned by SRCSD and operated by the City. SRCSD reimburses the City for certain costs the City incurs to operate and maintain Pump Station 2A. Pump Station 1/1A is not normally used during the summer (during dry weather periods) and is only operated as needed during wet weather or large storm events. Pump Station 2/2A is the primary pump station facility for the CSS, and is operated continuously throughout the year.

Pursuant to operational arrangements between the City and SRCSD, as described below, SRCSD is contracted to accept up to 60 million gallons per day (“**MGD**”) of wastewater and storm runoff from the CSS. Flows from the CSS are managed by the operations at Sump 2, which is operated by the City. Flows in excess of 60 MGD are automatically routed through the Pioneer Interceptor to the Pioneer Reservoir, which has 23 million gallons of storage capacity in the reservoir with 5 million gallons of storage capacity in the Pioneer Interceptor. After available storage in the Pioneer Interceptor and the Pioneer Reservoir is exhausted, flows are routed to the CWTP, which has additional storage capacity of 9.2 million gallons (including the CWTP interceptor). The City uses these facilities to store CSS flows when they exceed the 60 MGD discharge limit to the SRCSD treatment plant (“**SRCS D Treatment Plant**”). Stored wastewater is eventually discharged to the SRCSD Treatment Plant.

During large storm events when available storage capacity has been exhausted, the City may discharge primary treated and disinfected flows from the CWTP or Pioneer Reservoir to the Sacramento River within the Sacramento-San Joaquin River Basins watershed. The City has six permitted CSS discharge points, each of which discharge directly to the Sacramento River. Pioneer Reservoir provides primary treatment and disinfection for up to 250 MGD. After the wastewater is dechlorinated, it is discharged to the Sacramento River. CWTP provides primary treatment and disinfection for an additional 130 MGD (described below). See “Regulatory Compliance” for a description of federal and state regulation of the operations of the CSS.

Combined Wastewater Treatment Plant. The CWTP was constructed in 1954 as a wastewater treatment plant and was converted to a wet-weather facility upon construction of the SRCSD Treatment Plant. The City only uses the CWTP during wet-weather events, when flows from the CSS exceed the 60 MGD that can be discharged to and treated by the SRCSD Treatment Plant. The CWTP provides primary treatment (i.e., a mechanical settling process that removes oil and roughly 50 percent of the settleable solids) and disinfection for up to 130 MGD of combined

wastewater from the CSS prior to discharge to the river. The CWTP is also used for temporary storage of combined wastewater flows to reduce overflows to the Sacramento River as described above.

Pioneer Reservoir. The Wastewater System also includes the Pioneer Reservoir constructed in 1978 to provide 23 million gallons of temporary storage to reduce overflows to the Sacramento River from the CSS. The Pioneer Reservoir provides primary treatment and disinfection of combined wastewater flows prior to discharge to the river. The Pioneer Reservoir is a pile-supported, covered, reinforced-concrete structure that encompasses an area of approximately 3.5 acres.

Separated Sewer System. In addition to the City's CSS, the City's SSS conveys wastewater into major trunk sewer lines owned and operated by SRCSD, which then conveys the wastewater to the SRCSD Treatment Plant for treatment and disposal. In general, the City maintains the separated sewer pump stations and the collection system within the SSS. All wastewater originating from the City and conveyed through either the SSS or the SASD system is delivered to the SRCSD Treatment Plant.

See "Regulatory Compliance" for a description of federal and state regulation of the operations of the SSS.

Pumping Facilities. The City service area is divided into 51 sewer basins, 40 of which are pumped through individual pump stations. The remaining 11 sewer basins gravity flow directly or indirectly into SRCSD interceptor pipes. Thirty of the pump stations were constructed in the 1950's, 1960's and 1970's; most of these pumps have been rehabilitated or upsized during the past 10 years. The remaining 10 pump stations were constructed between 1985 and 2004 with only one pump station rehabilitated in 1999. Many of the pump stations discharge into downstream gravity sewers, that, in turn, convey the wastewater to pump stations further downstream.

Pipes and Other Facilities. Most of the larger pipes (greater than 24 inches in diameter) are reinforced concrete pipe. Other pipe materials in the system include asbestos cement, cast iron, ductile iron, and plastic. The pipes range in age up to more than 100 years old; approximately 54% of the pipes are more than 70 years old.

There are an estimated 1,300 miles of lower laterals in the Wastewater System, These are small pipes (typically 4 inches in diameter) that connect homes and businesses to the collection system sewer mains. The maintenance and repair of these pipes are the responsibility of the homes and businesses that receive service through the pipes.

Wastewater Treatment

As described herein, except for some flows from the CSS during significant wet weather events (such events typically occur five or six times per year), the City receives wastewater treatment and disposal services from SRCSD under the Master Interagency Agreement. SRCSD provides services to the Wastewater System primarily through the SRCSD Treatment Plant, which provides secondary treatment before discharge to the Sacramento River.

The SRCSD establishes charges to be imposed on customers of the Wastewater System for the services provided by SRCSD. The City includes these charges as a separate line item on the bills of customers of the Wastewater System. Under the Master Interagency Agreement, however, the

Wastewater System is responsible for any nonpayment of SRCSD charges by Wastewater System customers. See “Collection Procedures.”

The charges set by SRCSD take into account all of SRCSD’s costs in providing its services, including operating costs, capital costs, and debt service on SRCSD’s bonds. In order to finance and refinance certain capital improvements of SRCSD, from time to time the Sacramento County Sanitation Districts Financing Authority has issued revenue bonds, of which approximately \$1.4 billion were outstanding as of June 30, 2012 (the “**SRCSD Bonds**”).

The SRCSD Treatment Plant is subject to a National Pollution Discharge Elimination System (“**NPDES**”) permit, which SRCSD is responsible for complying with. NPDES permits generally have five-year terms. On December 9, 2010, the Central Valley Regional Water Quality Control Board (the “**Regional Board**”) issued a new permit with respect to the SRCSD’s Treatment Plant (the “**SRCSD Treatment Plant Permit**”). The SRCSD Treatment Plant Permit significantly increases treatment requirements for wastewater discharged from the SRCSD Treatment Plant, requiring SRCSD to design and install major new treatment systems by 2021. In a report to the SRCSD Board dated February 13, 2013, SRCSD staff set forth four different treatment scenarios, with capital costs ranging from approximately \$1.5 billion to \$2.2 billion (in 2018 dollars), and increased operating costs of approximately \$54 million (in 2020 dollars, when the facilities are expected to come on line). The report also stated that, when the revised costs were analyzed in accordance with SRCSD’s rate-and-fee model, monthly rates (per equivalent single-family dwelling) were projected to increase to between \$45 and \$51 by 2020 (as compared to \$26 effective as of July 1, 2013).

The current term of the Master Interagency Agreement expires on June 30, 2024, which is before the final maturity of the Series 2013 Bonds. If the Master Interagency Agreement is not renewed before it expires, then the City would have to make other arrangements for the treatment of wastewater it collects. While there can be no assurances that the Master Interagency Agreement will be renewed, the City expects that the regional wastewater-treatment system operated by SRCSD will continue to be the most economically practical means of wastewater treatment and disposal for the Contributing Agencies throughout the term of the Series 2013 Bonds and that renewal of the Master Interagency Agreement beyond the term of the Series 2013 Bonds will occur. However, if the Master Interagency Agreement is not renewed, there can be no assurances that any alternate arrangements entered into by the City for wastewater treatment and disposal would not result in significantly higher Operation and Maintenance Costs of the Wastewater System.

Interrelationship Between the Wastewater System and Stormwater Drainage System

As described above under “Wastewater System Facilities,” the CSS consists of pipes and facilities (including the CWTP and the Pioneer Reservoir) that collect, transport, store, and treat both sewage and stormwater, with the result that that the Wastewater System and Stormwater Drainage System jointly use the pipes and facilities within the CSS. Historically, funding of improvements has been allocated between the Stormwater Drainage System and the Wastewater System. Examples of this are the SRF Loans, with respect to which the City pays approximately 75% of the debt service from Stormwater Drainage System revenues and approximately 25% of the debt service from System Net Revenues. Stormwater Drainage System revenues generally consist of voter-approved charges collected by the City from property owners.

As described under “ – Capital Improvement Program,” the City intends to implement significant improvements over the next 30 years to the CSS, most of which will provide benefits to

both the Wastewater System and the Stormwater Drainage System. Among other things, such improvements are intended to provide for continuing compliance by the Wastewater System and the Stormwater Drainage System with regulatory requirements. The Series 2013 Project and other improvements to the CSS through Fiscal Year 2016-17 relate primarily to the sewage collection, transportation, and treatment function of the CSS and are being funded from the proceeds of Bonds and amounts available from the Wastewater System. A significant portion of the improvements anticipated in the period after Fiscal Year 2016-17 will provide benefits to both the Wastewater System and the Stormwater Drainage System. The City has not determined the respective portions of the costs of those later improvements that will be paid from Stormwater Drainage System revenues and from available funds of the Wastewater System.

Although the City believes that Stormwater Drainage System revenues expected to be generated from charges which have been previously approved by voters will be sufficient to fund ongoing operation and maintenance costs of the Stormwater Drainage System and pay 75% of debt service with respect to the SRF Loans, in order to fund a significant portion of the costs of the future capital improvements in the period after Fiscal Year 2016-17 future voter approval of increases to Stormwater Drainage System charges will be required. On a preliminary basis, the City currently projects that such voter approval would be required at some point in the next two to five years. There can be no assurances that voters will approve such increases.

If the voters do not approve increases to Stormwater Drainage System charges in the future, the City will nonetheless be required to implement the improvements to the CSS for the Wastewater System to continue to operate efficiently in accordance with current and expected future regulatory requirements. In such circumstances, up to 100% of the costs of such improvements could be funded from the issuance of additional Bonds or Parity Obligations payable from System Net Revenues on parity with the Series 2013 Bonds or from System Net Revenues remaining after the payment of debt service on Bonds and Parity Obligations. See “- Capital Improvement Program.”

In addition, the City anticipates that revenues of the Stormwater Drainage System will also be used to pay a portion of increases in operation and maintenance costs in the future for facilities utilized by both the Wastewater System and the Stormwater Drainage System. If Stormwater Drainage System revenues are not available for that purpose for any reason, then amounts payable from System Revenues (as Operation and Maintenance Expenses) for such purpose may increase significantly.

Regulatory Compliance

Generally. The Regional Board regulates water quality in the Central Valley under the authority of the Federal Clean Water Act (the “CWA”) and the State’s Porter-Cologne Water Quality Control Act. The Regional Board is the enforcement arm of the State and federal water-pollution-control programs in the Central Valley. Regulations with respect to sanitary sewer systems pertain to the prohibition against overflows or bypasses of untreated wastewater. Except as provided in the permits, such overflows and bypasses that reach the surface waters of the United States are violations of the CWA and subject to fines by the State Water Resources Control Board (the “SWRCB”) and the Regional Board, which have the authority to enforce the CWA in the State.

Regulatory requirements relating to the Wastewater System are described in detail the Feasibility Consultant’s Report.

SSS. The primary permit with respect to the SSS is the Waste Discharge Requirements permit issued by the SWRCB (the “**WDR Permit**”). The goal of the WDR Permit is to minimize Sanitary Sewer Overflows (“**SSOs**”) from the SSS. (An SSO occurs when wastewater comes out of the SSS, including when it enters a street, residence, business, or yard. This is usually caused by pipe blockage, failure, or lack of capacity). The WDR Permit regulates the operation of the SSS and prohibits any SSO that results in a discharge to waters of the United States or any SSO that results in a nuisance under State law. The WDR has no stated expiration or renewal dates. The WDR Permit generally requires that the SSS be operated in accordance with Statewide General Waste Discharge Requirements for Sanitary Sewer Systems issued by the SWRCB in 2006 (the “**Order**”). Although the Regional Board could issue an individual NPDES permit for the SSS (which might contain different or more stringent requirement than the Order), there has not been any action to do so by the Regional Board.

In addition to complying with the requirements of the WDR Permit for the SSS, the City must also comply with the requirements of a consent decree entered into on January 9, 2012, by the City and the California Sportfishing Protection Alliance (“**CSPA**”) (the “**Consent Decree**”). In the Consent Decree the City agrees to meet specified SSO reduction standards (more particularly described in the Feasibility Consultant’s Report) by implementing specific operational activities and capital improvements through a multi-year funding plan.

The CSS Permit. The primary permit with respect to the CSS (including the CWTP and the Pioneer Reservoir) is a NPDES permit issued by the Regional Board (the “**CSS Permit**”). The goals of the CSS Permit are to reduce Combined Sewer Overflows (“**CSOs**”) from the CSS into the Sacramento River and to reduce flooding and outflows within the area of the City served by the CSS. The main requirement of the CSS Permit that drives the capital program is a requirement mandating the City to spend \$10 million annually on improvements to the CSS to reduce and prevent CSOs and CSS outflows and flooding. The City believes that it has complied with this average spending requirement since its inception in 1996. In addition, while spending on capital improvements in accordance with the CSS permit may be less than \$10 million in certain Fiscal Years in the future, the City believes that it will comply with the average spending requirement in the future. (As described above, a portion of the required spending has been funded from revenues of the Stormwater Drainage System in the past and is expected to continue to be funded in the future, to the extent revenues of the Stormwater Drainage System are available for such purpose. See “Interrelationship between the Wastewater System and the Stormwater Drainage System.”

The CSPA filed a petition in February 2010 with the SWRCB for review of the CSS Permit adopted by the Central Valley RWQCB in January 2010. The SWRCB dismissed the petition in April 2012.

The current CSS Permit expires on January 1, 2015. (As previously noted, NPDES permits, such as the CSS Permit, generally have five-year terms.) In connection with the renewal of the CSS Permit, the City is required to submit an application for issuance of new Waste Discharge Requirements, in July 2014 (180 days prior to expiration of the current NPDES Permit). The City does not currently expect that significant additional operational requirements or limitations will be imposed in connection with the renewal of the CSS permit. However, in connection with the 2014 renewal or any future renewal, the Regional Board could require the City to implement substantial capital improvements or operational modifications that could substantially increase the Maintenance and Operations Costs of the Wastewater System or require the issuance of additional Bonds or Parity Obligations to fund the costs thereof.

The most likely challenge the City faces with respect to the renewal of the CSS Permit relates to implementation of the existing long-term control plan (“**LTCP**”). The Regional Board could require the City to make faster progress in meeting the LTCP goals to minimize outflows within the collection system and reduce overflows to the Sacramento River. This may require an increase in capital expenditures; however, the City could successfully negotiate a delay in implementing these requirements until funding could be increased. In addition, should the City demonstrate secure funding for the existing LTCP improvements, the Regional Board would likely be satisfied with the current level of capital expenditure.

The CSS Permit requires that the City must file with the Regional Board in June of 2013 a CSS Water Quality Assessment (“**WQA**”) which must demonstrate that the CSS continues to be protective of receiving water quality limits. The CSS WQA may recommend follow-up investigations of effluent or receiving water quality or treatment process optimization. However, because the CSS complies with the NPDES permit and there are no indications of significant water quality impacts, the City does not believe that costly improvements are likely to result from the WQA.

Should the City recommend CSS improvements in the WQA to improve CSO discharge quality, the City anticipates that the recommendations will be used to prioritize the planned LTCP capital improvement projects already funded. The City expects WQA recommendations will likely include less costly CSS operational changes and recommended projects will likely be included as requirements of the 2015 NPDES permit.

See APPENDIX A—“FEASIBILITY CONSULTANT’S REPORT” and “CERTAIN RISK FACTORS – Statutory and Regulatory Impact.”

Violations. As described in the Feasibility Consultant’s Report, according to the California Integrated Water Quality System, since February 2009 the CSS received 28 violation notices, 7 of which were priorities. The majority of the violation notices involved corrections to monthly reports. All violations have been corrected. During the past five years, the City received no Mandatory Minimum Penalty (“**MMP**”) violations for late reports but did receive six MMP effluent violations. These six MMP effluent violations occurred between January 21, 2012, and December 2, 2012, and were for exceedances of pH, chlorine total residual, and total suspended solids. These violations have also been addressed by the City, and no material fines were imposed.

Storms and Flooding. The CWA also makes municipalities responsible for regulating and managing the quality of stormwater runoff throughout their jurisdictions. A separate municipal stormwater permit is enforced by the Regional Board. The Feasibility Report describes regional planning efforts developed by the City and nearby municipalities. The Wastewater System and the Stormwater Drainage System jointly use pipes and facilities within the CSS. See “- Interrelationship between the Wastewater System and the Stormwater Drainage System.”

There also can be no assurances that a significant flooding event would not materially adversely affect the operations of the Wastewater System. See “- Floods” and “CERTAIN RISK FACTORS - Earthquake, Flood or Other Natural Disasters.”

Future Regulatory Requirements. The City believes that the Wastewater System complies with current operations and reporting requirements of local, State, and federal regulators. However, regulations may change, and compliance with future requirements could substantially increase the

costs of operating and maintaining the Wastewater System. See “CERTAIN RISK FACTORS – Statutory and Regulatory Impact.”

Customers

The following table shows the number of connections of the Wastewater System by user type. Non-residential accounts typically represent approximately 20% of System Revenues.

Table 1
City of Sacramento
Wastewater System
Number of Connections by User Type
as of June 30

User Type	2008	2009	2010	2011	2012
Residential	71,588	71,731	71,753	71,734	71,797
Commercial/Industrial	4,599	4,608	4,632	4,660	4,680
Total All Users	76,187	76,339	76,385	76,394	76,477

Source: The Department

The following table shows the 10 largest users of the Wastewater System based on service charge revenues for calendar year 2011.

Table 2
City of Sacramento
Wastewater System
Largest Users by Service Charge Revenues
Calendar Year 2011

User	Service Charge Revenue	Percentage of Total System Revenue ⁽¹⁾
City of Sacramento	\$ 226,114	1.1 %
Sacramento Housing and Redevelopment Agency	204,743	1.0
Sacramento City Unified School District	195,234	1.0
State of California	164,988	0.8
County of Sacramento	132,552	0.7
UC Davis	108,438	0.5
Advantage IQ Inc.	74,255	0.4
CSU Sacramento	61,989	0.3
Dignity Health	61,244	0.3
Los Rios Junior College	\$ 60,557	0.3

⁽¹⁾ Total revenue of approximately \$19.7 million is based on the 2011 calendar year.
Source: The Department.

Rates and Charges

Subject to the requirements of Proposition 218, the City has the power to establish rates and charges for services provided through the Wastewater System. (Charges for services provided by SRCSD are established by SRCSD, which also must comply with Proposition 218.) The rates and charges are recommended by the Utility Rate Advisory Commission, a non-binding advisory commission established by the City Council, and are not subject to approval by any agency other than the City Council. The following table shows the percentage amount of rate increases adopted by the City since 2005. (The Projected Operating Results assume rate increases of 11% and 11%,

respectively, in Fiscal Years 2015-16 and 2016-17, which have not been approved by the City Council.)

**Table 3
City of Sacramento
Wastewater System
Adopted Rate Increases**

<u>Fiscal Year</u>	<u>Rate Increase % ⁽¹⁾</u>
2004-05	6%
2005-06	6
2006-07	6
2007-08	7.2
2008-09	0
209-010	5
2010-11	5
2011-12	0
2012-13	16
2013-14	15
2014-15	14

⁽¹⁾ Does not include charges for services provided by SRCSD.

To analyze the revenue requirements needed to fund infrastructure projects that maintain system reliability and sustainability, move toward meeting industry best practices for infrastructure replacement and maintenance, and maintain compliance with federal, State, and local regulatory mandates, the Department contracted with the FCS Group, a consulting firm specializing in the utility rate-setting process. The Department used the revenue requirements developed by the FCS Group as the basis for the approved rate adjustments in Fiscal Years 2012-13, 2013-14, and 2014-15.

The following table shows selected monthly rates for services. See the Feasibility Consultant’s Report for a comparison against charges by other municipal agencies for wastewater services. (The following rates do not include SRCSD charges.)

**Table 4
City of Sacramento
Wastewater System
Selected Monthly Rates**

	<u>Rates Effective:</u>				
	July 1, 2011	July 1, 2012 (Current)	July 1, 2013	July 1, 2014	
<i>Flat Wastewater Rates (\$/month)</i>					
<i>Single Family Residential:</i>					
1-3 rooms	\$9.66	\$11.21	\$12.89	\$14.69	
4-5 rooms	12.24	14.20	16.33	18.62	
6-7 rooms	14.74	17.10	19.66	22.42	
8-9 rooms	17.03	19.76	22.72	25.90	
10-15 rooms	19.54	22.67	26.07	29.72	
Over 15, each additional room	1.33	1.55	1.78	2.03	
 <i>Metered Water Use, Unit Rate⁽¹⁾</i>					
<i>Wastewater Rate (\$/100 Cu.Ft. of Monthly Metered Water Use)</i>	\$0.6034	\$0.6999	\$0.8049	\$0.9176	
<i>Service Charge (\$/month)</i>					
	Monthly Metered Water Use				
<i>Water Meter Size:</i>					
5/8"	0-1,200 cu.ft.	\$7.25	\$8.40	\$9.66	\$11.01
3/4"	0-1,700 cu.ft.	10.26	11.90	13.68	15.60
1"	0-2,100 cu.ft.	12.67	14.70	16.90	19.27
1 1/2"	0-3,700 cu.ft.	22.32	25.90	29.78	33.95
2"	0-6,200 cu.ft.	37.41	43.40	49.90	56.89
3"	0-12,500 cu.ft.	75.40	87.49	100.61	114.70
4"	0-21,800 cu.ft.	131.52	152.59	175.46	200.03
6"	0-50,000 cu.ft.	301.65	349.97	402.44	458.79
8"	0-106,200 cu.ft.	640.69	743.34	854.79	974.48
10"	0-168,700 cu.ft.	1,017.75	1,180.80	1,357.84	1,547.97
12"	0-262,500 cu.ft.	1,583.65	1,837.35	2,112.82	2,408.66

⁽¹⁾ Almost all commercial customers are billed using the metered rate. Minimum monthly charge, based on water meter size and monthly metered water use. The minimum charge is the Unit Rate times the maximum monthly metered water use set forth below for each water-meter size. Each additional 100 cubic feet of monthly metered water use, or portion thereof, will be billed at the Unit Rate.

Collection Procedures

The City bills the legal owners of parcels for wastewater service connections to the City's Wastewater System. (As described herein, the City also bills for charges imposed by SRCSD. The City is responsible for payment to SRCSD of any charges not paid by City customers.) Billing for wastewater service (including SRCSD charges) is included on a monthly bill that may include other utility services provided by the City. Bills are generated within 16 billing cycles a month. Typically, one cycle is billed each business day. Bills are due 20 days from the bill-generation date in accordance with the City Code, and late-payment penalties are automatically assessed once an account becomes 15 days past due (i.e., 35 days after the bill date). A 10% late charge is added to each service charge on the account for a single bill's current charges once it becomes 15 days past due. An additional 1.5% late penalty is added each month to the portion of the overall outstanding balance that is 45 days past due. A delinquency notice is generated to the legal owners once an account becomes 45 days past due. If the account is not paid current, a lien is then assessed against the parcel at 75 days past due (i.e., 95 days after the bill date).

Annually, legal owners of parcels with delinquent accounts that have a balance more than 75 days past due are noticed with a special-assessment levy. Legal owners are given the opportunity to protest the charges and have a hearing before an independent hearing officer. Unpaid delinquent amounts are placed on the County property-tax bills annually once approved by City Council in July.

In the past two years, an average of 14,471 liens have been recorded against properties having delinquent service charges each year, and an average of 8,747 properties have had levies placed on the property-tax bills. The number of liens and levies represent the properties that had at least one delinquent utility-service charge. Since 2010, an annual aggregate average of \$364,000 in late fees has been assessed on utility bills for past due wastewater service charges, and an annual aggregate average of \$940,000 in delinquent wastewater service charges have been placed on delinquent customers' property-tax bills as a special-assessment levy.

The City believes that the use of liens to secure the payment of delinquent charges and late fees is an effective tool to ensure collection of delinquent accounts. If a property changes ownership and there is a lien on the property, the title companies issue a demand notice and payment is made to the utility. If a subject property is foreclosed and a trust deed is in place, the lien with respect to the utility bills is removed (without payment of the delinquent amounts). Accounts with these types of foreclosures as well as accounts that close with delinquent amounts less than 75 days past due are sent to a collection agency, which then pursues collection of the unpaid amount on the closed accounts.

The following table shows unpaid wastewater charges (including charges of SRCSD) the City was unable to collect through the lien and special-assessment procedure described above. When establishing rates each year, the City takes into account projected amounts of charges that it will be unable to collect. (SASD is responsible for the collection of the charges it imposes within the City.)

Table 5
Uncollected Wastewater System Charges
(Fiscal Year ending June 30)

	2008	2009	2010	2011	2012
City Wastewater Charges	\$148,783	\$355,533	\$258,230	\$299,249	\$232,437
SRCSD Charges	<u>\$217,322</u>	<u>\$534,074</u>	<u>\$399,148</u>	<u>\$473,372</u>	<u>\$353,116</u>
Total	\$366,105	\$889,607	\$657,378	\$772,621	\$585,553

Source: The City.

General Fund Tax on Wastewater System Revenues

In 1998, voters in the City approved Measure I, which provides for a general tax on the City’s water, sewer, storm-drainage, and solid-waste enterprises at the rate of 11% of the total gross revenues received from user fees and charges of all of the enterprises combined. Codified as section 41.10.150 of the Sacramento City Code, Measure I also provides that, in levying the tax, the City Council may impose a tax rate higher or lower than the 11% on one or more of the enterprises so long as the total tax paid by all of the enterprises does not exceed 11% of the total gross revenues received from user fees and charges of all of the enterprises combined.

The City currently imposes the tax at the rate of 11% of the collected utility-rate revenues of each of the enterprises, including the Wastewater System. In preparing the budget for the Wastewater System each year, the City takes into account the requirement that 11% of total gross revenues received from user fees and charges be paid as the tax and sets rates and charges accordingly. At the beginning of each Fiscal Year, the City estimates the total amount of the general tax that will be due, and by the first day of each month during the Fiscal Year, one-twelfth of that amount is recorded to the General Fund on the City’s books from the receipts of the Wastewater System. At the end of each Fiscal Year, the City compares the total amount of monthly amounts allocated to 11% of the actual collected utility- rate revenues of the Wastewater System, and a reconciliation is made between the Wastewater Fund and the General Fund.

Under the Indenture, System Revenues do not include the portion of gross revenues of the Wastewater System from user fees and charges that are recorded to the City’s General Fund as part of the voter-approved 11% general tax. Such amounts have not been included for purposes of the calculation of debt-service coverage in the Projected Operating Results in Table 8. See “-Projected Financial Results.”

Budgetary and Financial Procedures

The Wastewater Fund is an enterprise fund used to account for the activities associated with the collection and treatment of wastewater. It supports both the capital and the operating costs of providing wastewater services throughout the Wastewater System service area, including the costs of collection and treatment systems. Revenues are generated by service charges, interest earnings, and development fees. Generally, revenues are to be used to offset enterprise operations and improvements and may not exceed the estimated reasonable cost of providing these services, plus overhead.

The service charges and development fees are collected through various methods. Then, typically within one business day of receipt, they are deposited into the City’s general bank account, which is used for the receipt of all of the City’s cash (including cash from the City’s other utilities,

parking facilities and General Fund amounts). Each night, the amounts in this account are swept into the City's primary investment account, which is part of the City's Pool A (described below). The City then identifies the amounts within Pool A that consist of utility payments (includes payments from all of the City's utilities, including the Wastewater System) and records these amounts to a utility revolving fund in the City's books. Payments for each utility are then recorded to the appropriate enterprise fund in the City's books, which in the case of the Wastewater System is the Wastewater Fund.

The City maintains the following funds in connection with the Wastewater System:

Wastewater Fund. Revenue generated by the City for the purpose of providing wastewater service to its customers is deposited in the Wastewater Fund. Revenues are derived from customer charges, interest earnings, and development fees. Wastewater Fund revenues are structured to cover the costs of providing wastewater service to its customers, which include costs of plant maintenance, collection-system repair and maintenance, related engineering services, customer service and billing, and capital improvements.

Development Impact Fee Fund. Revenue generated by the City in relation to Wastewater System development impact fees are deposited in the Development Impact Fee Fund. Wastewater System development impact fees are one-time fees paid at the time of connection to the Wastewater System and represent the estimated reasonable cost of providing system capacity to new development. Proposed Wastewater System development fees are based on the system buy-in methodology.

Grant Projects Fund. The Grant Projects Fund was established in Fiscal Year 2011-12 to account separately for Wastewater Fund restricted grants and other third-party reimbursements for multi-year programs.

Investment of Funds

Funds of the Wastewater System are invested in the City's Investment Pool A ("**Pool A**"). Pool A contains approximately 99% of the City's cash and investments and is governed by the investment policy of the City Treasurer (the "**Investment Policy**"), which is annually presented to the City Council for approval. This policy requires the City Treasurer to conform to Government Code section 53600 and following, with the primary objectives, in order of priority, of safety, liquidity, and yield. Quarterly, the City's investment committee consisting of representatives of the various entities that are investors in Pool A (including the City, Sacramento City Employees' Retirement System, Sacramento Housing and Redevelopment Agency, Capital Area Development Authority, American River Flood Control District, The Natomas Basin Conservancy, Sacramento Public Library Authority, and several endowment funds) (the "**Investment Committee**") convenes to audit and review the investments to confirm that they are in compliance with the Government Code and the Investment Policy. The Investment Committee also reviews the investment strategy and guidelines in relation to the changing financial markets. Each month the City Treasurer submits an investment-activity report for review by the City Council.

Wastewater System funds in Pool A are available to the City (including the General Fund) for cash-flow purposes during each Fiscal Year. Any amounts used by that purpose must be repaid before June 30 of the Fiscal Year in which they are borrowed. Although the City has used Wastewater System funds and other enterprise funds for cash-flow purposes from time to time in the

past (and may do so in the future), the City has used tax-and-revenue-anticipation notes for cash-flow purposes the last three Fiscal Years.

See “CERTAIN RISK FACTORS- Effect of Losses in City Investment Pool.”

Capital Improvement Program

The City’s capital-improvement program is a comprehensive five-year plan for capital-project expenditures for the entire City, including the Wastewater System. The capital-improvement program is a guide for identifying current and future infrastructure requirements and becomes the basis for determining annual capital-budget expenditures. Capital improvements are major projects undertaken by the City that are generally not recurring and are for repairs, maintenance, improvement, or acquisition with a total cost of at least \$20,000.

Wastewater CIP. The focus of the Wastewater System Capital Improvement Program (the “**Wastewater CIP**”) over the next five years will be on rehabilitating or replacing aging infrastructure, primarily pipes and pumps stations, and complying with regulatory mandates. See “THE SERIES 2013 PROJECT.”

The following table sets forth capital-improvement costs identified in the Wastewater CIP through Fiscal Year 2016-17, as well as expected sources of funding. (The table includes the Series 2013 Project.) The Feasibility Consultant’s Report contains information concerning particular projects within the Wastewater CIP.

Table 6
City of Sacramento
Projected Wastewater CIP and Sources of Funding
(Dollars in Millions)

Fiscal Year Ending June 30	<u>Bond</u> <u>Proceeds</u>	<u>Current</u> <u>Revenues</u>	<u>Use of Fund</u> <u>Balance</u>	<u>Grant</u>	<u>Capital</u> <u>Improvement</u> <u>Cost</u>
2013	\$ 8.1	\$ 1.7 ⁽¹⁾	-	-	\$ 9.8
2014	16.4	0.4	-	\$ 3.4	20.2
2015	5.5	1.2	-	2.8	9.5
2016	19.4	3.2	-	-	22.6
2017	<u>21.7</u>	<u>5.0</u>	=	=	<u>26.7</u>
Total	\$ 71.1	\$ 11.5	-	\$ 6.2	\$ 88.8

⁽¹⁾ Includes \$200,000 funded from development impact fees.
(Total may not add due to rounding.)
Source: The City

Future Capital Improvements. As mentioned above, the City’s capital-improvement program includes a comprehensive five-year plan for identifying current fiscal requirements. Additionally, the program includes a long-term 30-year capital-investment plan that serves as a planning tool and guide for longer-term projects and programs to ensure that they are consistent and incrementally keeping pace with the need to invest in the City’s critical and aging infrastructure. The goals of the 30-year plan are to fully comply with regulatory, legislative, and other requirements; to accelerate Wastewater System infrastructure replacement to the “Best Practices” level; and, where necessary, to improve systems where they do not meet current levels of service.

The City will continue to face future fiscal challenges in using an aged Wastewater System infrastructure, some components of which are nearing or exceeding their remaining service lives, to provide the level of service customers expect. As a result, after 2017, the City will need to continue its ongoing effort to implement the long-term plan to address the above-mentioned goals beyond the current five-year plan. On a preliminary basis, the City estimates that capital-improvement costs for the 25-year period commencing in Fiscal Year 2017-18 could range from \$1.1 billion to 1.2 billion (in escalated dollars). The City also expects that significant capital improvements will be required with respect to the Stormwater Drainage System. As described herein under “Interrelationship Between Wastewater System and Stormwater Drainage System,” certain capital improvements which the City expects to fund from revenues of the Stormwater Drainage System may ultimately be funded from Wastewater System Revenues.

In addition to the planning efforts described above, the City also expects to complete work next year on a long-term master plan for the Wastewater System (the “**Master Plan**”). The Master Plan considers the projected impact of potential future growth in the City over the next 30 years. If there is significant growth, improvements and expansions to the Wastewater System may be required and could be substantial depending on the level of growth expected at the time. The City’s policy is that new development would bear the cost of these growth-related expansions or improvements; therefore, the costs of these expansions or improvements are not included in the Projected Operating Results or the planned capital-improvement costs described above.

Retirement Programs

Salaries and benefits costs of the Wastewater System include funding of retirement benefits for employees assigned to the Wastewater System who, as City employees, participate in the California Public Employees Retirement System (“**PERS**”). (City employees assigned to the Wastewater System constitute approximately 4% of all City employees.) Retirement payments paid from Wastewater System revenues, with respect to employees assigned to the Wastewater System, were approximately \$482,000 in Fiscal Year 2009-10, approximately \$481,000 in Fiscal Year 2010-11, and approximately \$534,000 in Fiscal Year 2011-12. The City estimates that the required contribution for Fiscal Year 2012–13 will be approximately \$664,000 and projects that the required contribution for Fiscal Year 2013-14 will be approximately \$780,000. Payments to PERS constitute Maintenance and Operation Costs of the Wastewater System.

For a variety of reasons, including investment losses, the City has experienced significant unfunded liabilities, and retirement costs payable with respect to all City employees, including those assigned to the Wastewater System, have increased in recent years. As of June 30, 2011, the City’s “Miscellaneous Plan” with PERS (in which the City employees assigned to the Wastewater System participate) had an unfunded liability (with respect to all participating City employees, including employees assigned to the General Fund, the Wastewater Fund, and other enterprise funds) of approximately \$160 million (actuarial value basis) and \$230 million (market value basis), and a funded ratio of 80.5% actuarial value basis) and 72.0% (market value basis).

As a result, required contributions from the City are expected to continue to increase. See APPENDIX B — “AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2012” — Note 8 to the Basic Financial Statements” for a discussion of retirement liabilities payable by the City.

In addition to required contributions for retirement benefits for employees, the City pays certain post-employment health care and other non-pension benefits (“**OPEB**”) for such employees.

The City's OPEB related payments were approximately \$9.5 million in Fiscal Year 2011-12 and are projected to be approximately \$9.6 million in Fiscal Year 2012-13. The City's actuarial contribution of \$12.2 million for Fiscal Year 2011-12 included an implied subsidy of \$2.7 million, the result of blended premiums for active employees and retirees. See APPENDIX B — "AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2012" — Note 9 to the Basic Financial Statements" for a discussion of OPEB liabilities payable by the City, as well as the City's current unfunded OPEB liability.

Insurance

The City insures its assets (including assets of the Wastewater System) through the Public Entity Property Insurance Program ("**PEPIP**"). PEPIP was formed in 1993 to meet the property-insurance needs faced by public entities. PEPIP is a joint-purchase program. The total insurable property values for the City were \$1,633,484,276 for Fiscal Year 2012-13. The property policy contains a \$100,000 deductible with coverage limits of \$1,000,000,000. Coverage limits are shared with other PEPIP members in different geographical areas to reduce the risk of one large property loss affecting a high percentage of members. Earthquake insurance is not purchased due to the high cost and limited coverage.

The City purchases excess-liability insurance coverage for the following risks: general liability, automobile liability, public officials' errors-and-omissions liability, unfair-employment-practices liability, and employee-benefits liability. All coverage is on an occurrence basis. Excess liability limits remain at \$30,000,000 with a self-insured retention of \$3,000,000. The City is currently participating in the Alliant National Municipal Liability Program ("**ANML**") for the purchase of excess-liability insurance. ANML provides comprehensive liability coverage to public agencies across the nation. Participants in ANML do not share risk, and each participating member selects its own limits of liability insurance and self-insured retention.

The City's excess workers-compensation limits are set at statutory coverage for Fiscal Year 2012-13 with a self-insured retention of \$2,000,000. Statutory coverage provides payment for claims up to the amount required by law, without limits. Excess workers-compensation insurance is purchased through California State Association of Counties Excess Insurance Authority ("**CSAC**"). The CSAC program is the largest pool in the nation and provides services to a large number of counties and cities in California. The program has a \$5,000,000 pooled limit and statutory reinsurance coverage for each accident.

The City's insurance program is subject to modifications based on insurance market conditions, the availability of insurance to public entities, and the cost effectiveness of certain levels of self-insured retentions.

Leasing of Certain Components of the Wastewater System

Since 1999, the City has from time to time financed capital improvements through the issuance of bonds ("**Master Lease Bonds**") by the Sacramento City Financing Authority (the "**SCFA**") under a "**Master Lease Program**." There are currently approximately \$470 million of Master Lease Bonds outstanding. Under the Master Lease Program, the City has leased various City-owned properties (the "**Leased Property**") to SCFA. Examples of Leased Property include City Hall, the Granite Regional Park, various City fire stations, the Memorial Auditorium, and as described in the next paragraph, certain components of the Wastewater System. SCFA concurrently subleased the Leased Property back to the City under a lease agreement (the "**Master Lease**") in

consideration for the payment of rent by the City in an amount equal to debt service on the Master Lease Bonds. SCFA then assigned to a trustee for the holders of the Master Lease Bonds (the “**Master Lease Trustee**”) SCFA’s rights under the Master Lease, including the right to receive City’s lease payments.

In connection with the previous issuance of Master Lease Bonds for projects unrelated to the Wastewater System, the City added portions of the Wastewater System, consisting of Sump #2 [and the Pioneer Reservoir], as part of the Leased Property. The final maturity of the Master Lease Bonds is currently December 1, 2033, but could be extended. While the Master Lease Bonds are outstanding, the components of the Wastewater System that constitute Leased Property cannot be released from the Master Lease until (a) the City either adds additional property satisfying the requirements of the Master Lease or determines that the Leased Property that remains after the release meets the requirements of the Master Lease, and (b) the City elects to effectuate the release. There can be no assurances that the Wastewater System components that constitute Leased Property will be released from the Master Lease before the maturity of the Series 2013 Bonds.

The Master Lease obligates the City to make lease payments from the City’s General Fund. (The obligation of the City to make lease payments is subject to abatement to the extent the Lease Property is unavailable for beneficial use because of damage, destruction, or condemnation.) Where Master Lease Bonds were issued to finance improvements for one of the City’s enterprises (such as water or solid waste), the City has generally paid the portion of Master Lease payments allocable to such bonds from the enterprise which benefitted.

Under the Master Lease, the Master Lease Trustee (as assignee of SCFA) has certain remedies if the City fails to pay the entire amount of rent due from time to time with respect to the Leased Property. These remedies include the right to bring an action against the City to compel payment, as well as the right to relet all or any portion of the Leased Property. (The remedies of the Trustee do not include the right to sell any portion of the Leased Property.) If any portion of the City’s Master Lease payments are not made (regardless of the source), the Master Lease Trustee can avail itself of remedies with respect to any portion of the Leased Property. Therefore, in the event that the City fails to make payments allocable to the Master Lease Bonds, the Master Lease Trustee could elect to exercise remedies against the portion of the Leased Property consisting of the components of the Wastewater System.

Under the Indenture, the City will covenant that it will not encumber any components of the Wastewater System under a City General Fund lease except for the components of the Wastewater System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease. However, this covenant does not prohibit the City from improving, making additions to, rehabilitating or replacing components of the Wastewater System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease or incurring additional obligations under any City General Fund lease that, as of the date of issuance of the Series 2013 Bonds, encumbers components of the Wastewater System.

There can be no assurances that, if the City fails to make required payments under the Master Lease for any reason, that failure would not result in significant increases in costs of the Wastewater System, or materially adversely affect the operation of the Wastewater System or the ability of the Wastewater System to generate System Net Revenues in the amounts required by the Indenture.

Floods

The Federal Emergency Management Agency (“**FEMA**”) produces Flood Insurance Rate Maps (“**FIRMs**”) that show which portions of the city are in the 100-year floodplain. A 100-year floodplain is an area expected to be inundated during a flood event of the magnitude for which there is a 1-in-100 probability of occurrence in any year.

The Natomas area was remapped into a 100-year floodplain on December 8, 2008, after the Army Corps of Engineers (the “**Corps**”) determined that the levees around the basin did not meet current federal standards. The levees around the Natomas Basin are currently being constructed to meet the 200-year level of protection. Outside of the Natomas Basin, the FIRMs show the majority of the City is not in the 100-year floodplain. Small floodplains exist along Arcade Creek, Dry Creek, Magpie Creek, and Florin Creek.

In order to have an area be mapped outside the 100-year floodplain by FEMA, the levee protecting the area must be certified. On March 19, 2012, the Corps issued a letter notifying the City of the expiration of the levee certifications for Arcade Creek, the left bank of the Natomas East Main Drainage Canal, and Dry Creek, effective immediately. The levee certifications for portions of Robla Creek, American River, Sacramento River, and Morrison Creek will expire in August 2013. FEMA currently has an undetermined timeline for remapping these areas behind these levees into a floodplain. An effort is currently underway, led by the Sacramento Area Flood Control Agency (“**SAFCA**”), to recertify these levees before any remapping occurs by FEMA.

According to the FIRMs, all of the major facilities of the Wastewater System are currently outside the 100-year floodplain. There are however, five pump stations that are within FEMA-designated floodplains. Four of the pump stations are near the Sacramento Marina and will remain in a riverine flood plain. One pump station will be removed from the flood plain upon completion of Corps’ levee-improvement projects. However, there can be no assurances that a significant flooding event would not materially adversely affect the operations of the Wastewater System. See “CERTAIN RISK FACTORS - Earthquake, Flood or Other Natural Disasters.”

Historical Financial Results

The following table contains a summary of certain historical operating results of the Wastewater System, as excerpted from the City’s audited financial statements. These results are not presented in accordance with the conventions of the Indenture.

Table 7
Historical Wastewater Fund Revenues and Expenses
(Dollars in Thousands)

	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
Operating Revenues⁽¹⁾:					
User fees and charges	\$ 19,673	\$ 18,995	\$ 19,426	\$ 20,169	\$ 20,484
Charge to SRCSD for O&M of SRWTP ⁽²⁾	966	760	837	1,191	913
Impact Fee Revenue ⁽³⁾	1,042	458	28	367	220
Interest and Investment Revenue	760	593	615	337	235
Miscellaneous ⁽⁴⁾	65	20	21	-	99
Transfers In ⁽⁵⁾	17	492	31	19	19
Grants and Other Capital Contributions	1,057	1,485	3,650	2,082	1,417
Revenue From Other Agencies ⁽⁶⁾	353	-	-	-	17
Total Operating Revenues	\$ 23,933	\$ 22,803	\$ 24,608	\$ 24,165	\$ 23,404
General Fund Tax Transfer Out⁽⁷⁾:	\$ (2,135)	\$ (2,080)	\$ (2,100)	\$ (2,180)	\$ (2,269)
Operating Expenses:					
Employee Services	\$ 7,644	\$ 7,908	\$ 7,108	\$ 6,457	\$ 7,034
Services and Supplies	6,906	8,648	6,222	8,407	8,869
Total Operating Expenses	\$ 14,550	\$ 16,556	\$ 13,330	\$ 14,864	\$ 15,903
Net Revenues:	\$ 7,248	\$ 4,167	\$ 9,178	\$ 7,121	\$ 5,232
Debt Service⁽⁸⁾:					
SRF Loans	859	859	859	859	859
Total Debt Service	859	859	859	859	859

(1) This historical summary of the Comprehensive Annual Financial Report (CAFR) results for the Wastewater Fund includes revenue and expense amounts which have been excluded from the Projected Operating Results in Table 8 consistent with the provisions of the Indenture and excludes depreciation and amortization from expenses. Examples of revenues excluded from the Projected Operating Results include restricted grants to fund capital projects.

(2) Pursuant to the terms of an operating agreement between SRCSD and the City, SRCSD reimburses the City for certain costs the City incurs to operate and maintain Sump Nos. 2, 55 and 119.

(3) Impact Fee Revenue, Grants, and Other Capital Contributions are reported combined in the CAFR as Capital Contributions.

(4) Prior to Fiscal Year 2011-12, revenue from operating grants and other agreements were shown in the Miscellaneous line; these amounts are now shown in the Revenue From Other Agencies line.

(5) Transfers In are generally income derived from fleet vehicle sales. The \$492,000 transfer reported in Fiscal Year 2008-09 included a \$427,000 refund of excess contributions from the City's workers compensation fund.

(6) The \$353,000 reported in Fiscal Year 2007-08 resulted from the sale of easements to another government agency.

(7) The voter-approved General Fund Tax is equal to 11 percent of the collected utility rate revenue. See "- General Fund Tax on Wastewater System Revenues."

(8) Debt Service includes both principal amortization and interest expense. It includes only the portion of the SRF Loan debt paid by the Wastewater Fund. The portion paid by the storm drainage fund (approximately \$2.6 million annually) is excluded.

Source: The City

Projected Financial Results

The following table contains a summary of certain projected operating results of the Wastewater System, as excerpted from the Feasibility Consultant's Report. The projected operating results are based upon a variety of assumptions, calculations, and qualifications, as described in the Feasibility Consultant's Report. The Feasibility Consultant's Report should be read in its entirety for a description of such assumptions, calculations, and qualifications. While the City and the Feasibility Consultant believe these assumptions to be reasonable, the assumptions may vary significantly from actual future conditions because of unanticipated events and circumstances. To the extent that actual future conditions vary from those assumed in the preparation of the projected operating results, the actual results will vary from those contained in the Table. See APPENDIX A—"FEASIBILITY CONSULTANT'S REPORT" and "CERTAIN RISK FACTORS - Rate Covenant Not a Guarantee; Failure to Meet Projections."

The projected operating results reflect the planning efforts of the Department and assumed rate increases (in addition to rate increases already approved through Fiscal Year 2014-15) in Fiscal Years 2015-16 and 2016-17. Although rate increases through Fiscal Year 2014-15 have been approved by the City Council, full implementation of the Department's plans (including adoption of necessary rate increases) will require future approval of rate increases by the City Council. There can be no assurances that the City will not modify the rehabilitation and capital-improvement plan described herein or decline to adopt rates in the amounts contemplated in the projected operating results.

For the purposes of projecting revenue, minimal growth in customers has been assumed. If there is significant growth, additional improvements and expansions to the Wastewater System infrastructure may be required and could be substantial depending on the level of growth expected at the time. The City's policy is that new development would bear the cost of these growth-related expansions or improvements, and therefore the costs of these expansions or improvements are not included in the Projected Operating Results. These projects will only be constructed as projected development occurs and are expected to be funded using impact fee revenues and/or to be developer built and dedicated.

The information in Table 8 was excerpted from the Feasibility Consultant's Report. As described in the Feasibility Consultant's Report, the information therein is based on a variety of assumptions, calculations, and qualifications, and the information in Table 8 reflects those assumptions, calculations, and qualifications. Table 8 must be reviewed in conjunction with a review of the Feasibility Consultant's Report in its entirety.

**Table 8
Summary of Projected Operating Results**

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Operating Revenues					
Utility Rate Fees (1)	\$22,566,326	\$26,076,088	\$29,955,615	\$33,436,060	\$37,114,026
Wastewater Impact Fees (2)	-	-	-	-	-
Interest Earnings (3)	392,000	392,000	482,606	724,900	782,271
Miscellaneous Revenues	1,107,006	1,107,006	1,140,216	1,174,423	1,209,655
Total Operating Revenues:	<u>\$24,065,332</u>	<u>\$27,575,094</u>	<u>\$31,578,437</u>	<u>\$35,335,382</u>	<u>\$39,105,953</u>
General Fund Tax Transfer Out (4)	<u>\$(2,482,296)</u>	<u>\$(2,868,370)</u>	<u>\$(3,295,118)</u>	<u>\$(3,677,967)</u>	<u>\$(4,082,543)</u>
System Revenues:	\$21,583,036	\$24,706,725	\$28,283,320	\$31,657,416	\$35,023,410
Maintenance and Operation Costs					
Employee Services (5)	\$(7,343,135)	\$(8,894,000)	\$(8,982,940)	\$(9,459,036)	\$(9,960,365)
Services and Supplies (6)	\$(10,734,787)	\$(14,007,939)	\$(14,786,272)	\$(15,366,227)	\$(16,122,059)
Total Maintenance and Operation Costs	<u>\$(18,077,922)</u>	<u>\$(22,901,939)</u>	<u>\$(23,769,212)</u>	<u>\$(24,825,263)</u>	<u>\$(26,082,424)</u>
(Deposit to) / Withdrawal From Rate Stabilization Fund (7)	-	-	-	-	-
System Net Revenues	\$3,505,114	\$1,804,786	\$4,514,107	\$6,832,153	\$8,940,986
Debt Service					
Parity Obligations and Bonds					
State Revolving Fund – Sump 1/1A Pioneer Reservoir	\$(165,653)	\$(165,653)	\$(165,653)	\$(165,653)	\$(165,653)
State Revolving Fund – Sump 2 Rehabilitation	(2,367,089)	(2,367,089)	(2,367,089)	(2,367,089)	(2,367,089)
State Revolving Fund – Land Park Sewer	(165,022)	(165,022)	(165,022)	(165,022)	(165,022)
State Revolving Fund – UCD Medical Center Storage	(342,049)	(342,049)	(342,049)	(342,049)	(342,049)
State Revolving Fund – Tahoe Park/Broadway Parallel Sewer	(397,126)	(397,126)	(397,126)	(397,126)	(397,126)
State Revolving Fund Debt Service Funded via Stormwater Fund (8)	2,577,703	2,577,703	2,577,703	2,577,703	2,577,703
Wastewater Revenue Bonds Series 2013	-	-	(1,423,425)	(1,960,250)	(1,960,775)
Wastewater Revenue Bonds Series 2016 (9)	-	-	-	-	-
Total Parity Obligations and Bonds Debt Service	\$(859,234)	\$(859,234)	\$(2,282,659)	\$(2,819,484)	\$(2,820,009)
Coverage Requirement Compliance					
Parity Obligations and Bonds (Requirement is 1.20 times)	4.08x	2.10x	1.98x	2.42x	3.17x
Cash Funding of Facilities					
Capital Outlay (PayGo from Current Year Rate Revenue)	(1,500,000)	(400,000)	(1,200,000)	(3,247,000)	(5,000,000)
Capital Outlay (PayGo from Wastewater Fund Balance)	-	-	-	-	-
Net Change to Unrestricted Fund Balance	\$1,145,880	\$545,551	\$1,031,448	\$765,668	\$1,120,977
Beginning Unrestricted Wastewater Fund Balance:	\$8,587,000	\$9,732,880	\$10,278,431	\$11,309,879	\$12,075,547
Ending Unrestricted Wastewater Fund Balance:	\$9,732,880	\$10,278,431	\$11,309,879	\$12,075,547	\$13,196,523

NOTES

- 1) Utility Rate increases of 16% for Fiscal Year 2012-13, 15% for Fiscal Year 2013-14, and 14% for Fiscal Year 2014-15 have been approved. Assumed rate increases of 11% in Fiscal Year 2015-16, 11% in Fiscal Year 2016-17, and 11% in Fiscal Year 2017-18 are not approved and will require City Council Approval.
- 2) Wastewater development impact fee revenue is estimated at \$0 before Fiscal Year 2014-15 to account for the zero growth assumption. Beginning in Fiscal Year 2015-16, account growth is estimated at 2%, but impact fees continue to be assumed at \$0 to be conservative.
- 3) Interest earnings on the Wastewater Fund are estimated at 1.0% of the Wastewater Fund revenue collected in Fiscal Year 2013-14, 1.5% in Fiscal Year 2014-15 and 2.0% thereafter.
- 4) The voter-approved General Fund tax is equal to 11% of the collected Wastewater Fund revenue. See “General Fund Tax on Wastewater System Revenues.”
- 5) Employee Services cost increases are subject to approval by the City Council. There is an assumption of 1% increase per year attributable to rising pension costs. After Fiscal Year 2014-15, Employee Services is estimated to increase by 5.3% per year, of which 1% is attributable to pension costs.
- 6) Services and Supplies costs assume annual increases of 5% for utilities, 11% for fuel and 6% for chemicals. All other Services and Supplies are expected to increase 2.0% in Fiscal Year 2012-13, 2.5% in Fiscal Year 2013-14, and 3.0% every year thereafter.
- 7) An initial deposit to the Rate Stabilization Fund of \$2,500,000 will be funded from existing unrestricted amounts.
- 8) Pursuant to their terms, the SRF loans are payable from System Net Revenues and also from revenues attributable to Stormwater Drainage System. However, if for any reason Stormwater Drainage System revenues are unavailable for payment of the SRF Loans, the City would be obligated to make such payments from System Net Revenues on parity with the Bonds. The City’s obligations with respect to the SRF Loans constitute Parity Obligations under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Outstanding Parity Obligations.”
- 9) The principal amount of the Wastewater Revenue Bonds projected to be issued in Fiscal Year 2015-16 is approximately \$56 million. The City expects that debt service on the 2016 Bonds through Fiscal Year 2016-17 will be paid from capitalized interest and is therefore not shown in the Projected Operating Results.

Source: The City

THE SERIES 2013 PROJECT

The Series 2013 Project consists of that portion of the Wastewater CIP to be funded from the proceeds of the Series 2013 Bonds. The following table identifies costs associated with major components of the Series 2013 Project.

Table 9
Series 2013 Project Components
(Dollars in Millions)

Category	Amount
SSS Permit/Consent Decree Compliance	\$ 8.5
CSS Rehabilitation	2.6
CSS Permit Compliance	12.0
Pump Station/Large Facility Rehabilitation	3.7
Other	<u>3.2</u>
Total	\$30.0

The Series 2013 Project is described in the Feasibility Consultant's Report and includes the following major components:

- Electrical rehabilitation of four wastewater sumps and two motor-control centers at CWTP and complete reconstruction of two wastewater sumps.
- Seven pipe rehabilitation projects replacing aging infrastructure in the CSS.
- Thirty-one pipe rehabilitation projects replacing aging infrastructure in the separated system.
- Two CSS pipeline replacement projects and the addition of a regional storage facility to provide approximately 3.74 million gallons (500,000 cubic feet) of temporary storage during heavy rainfall periods in order to reduce the potential for flooding and CSOs regionally and locally.

See APPENDIX A – “FEASIBILITY CONSULTANT’S REPORT” for more information concerning the Series 2013 Project.

Acquisition and construction of various components of the Series 2013 Project requires certain governmental permits and approvals, including demonstration of compliance with the California Environmental Quality Act, as amended, division 13 of the California Public Resources Code (“**CEQA**”).

See APPENDIX A – “FEASIBILITY CONSULTANT’S REPORT” for more information concerning the Series 2013 Project, including CEQA compliance.

FEASIBILITY CONSULTANT'S REPORT

The Feasibility Consultant has been retained on a non-contingent basis to prepare a Feasibility Consultant's Report for inclusion in this Official Statement as Appendix A. The Feasibility Consultant's Report contains a review and analysis of technical, economic, and environmental aspects of the Wastewater System, and other related matters. Certain information in this Official Statement concerning the City and the Wastewater System has been excerpted from the Feasibility Consultant's Report. *The estimates, opinions, and conclusions expressed in the Feasibility Consultant's Report (certain of which are set forth below) are based upon certain assumptions, calculations, and qualifications set forth therein, and the Feasibility Consultant's Report should be read in its entirety.* Although the Feasibility Consultant believes these assumptions to be reasonable for purposes of the Feasibility Consultant's Report, the assumptions may vary significantly from actual future conditions because of unanticipated events and circumstances. To the extent that actual future conditions vary from those assumed in the Feasibility Consultant's Report, the actual results will vary from those contained in the Feasibility Consultant's Report. As described in Appendix A to this Official Statement, the Feasibility Consultant has provided a variety of engineering and consulting services to the City. In addition to preparing the Feasibility Report, the Feasibility Consultant provided design services for the Sacramento River Water Treatment Plant improvements and developed the 2010 Urban Water Management Plan.

During the preparation of the Feasibility Consultant's Report, the City provided the Feasibility Consultant with information relating to the Wastewater System, and the City and the Underwriter reviewed and commented on drafts of the Feasibility Consultant's Report.

The Feasibility Consultant's Report contains the conclusions and opinions set forth below. The Feasibility Consultant's Report must be read in its entirety for a complete understanding of the assumptions and qualifications relating to the conclusions and opinions set forth below. (Capitalized terms in the following excerpt from Feasibility Consultant's Report have the meanings ascribed to them in the Feasibility Consultant's Report.)

[TO COME]

CERTAIN RISK FACTORS

When evaluating the Series 2013 Bonds, potential investors should consider the following major risk factors along with all other information in this Official Statement. There can be no assurance that other risk factors do not currently exist or will not arise at any future time because of changed circumstances or otherwise.

Rate Covenant Not a Guarantee

The City's ability to pay the principal of and interest on the Series 2013 Bonds depends on its ability to generate System Net Revenues at the levels required by the Indenture. Although the City has covenanted in the Indenture to impose rates, fees, and charges as more particularly described herein, and expects that sufficient revenues will be generated through the imposition and collection of such rates, fees, charges, and other System Revenues described herein, there is no assurance that the imposition and collection of such rates, fees, charges, and other System Revenues will result in the generation of System Net Revenues in the amounts required by the Indenture. The City's

covenant does not constitute a guarantee that sufficient System Net Revenues will be available to make debt-service payments on the Series 2013 Bonds.

Increased Costs

The actual cost of operating and maintaining the Wastewater System and implementing necessary capital improvements (including the Series 2013 Project) will depend on a variety of factors, including but not limited to potential rising costs or shortages of labor or materials; the discovery of unforeseen subsurface conditions; earthquakes, floods, or other natural disasters; severe weather conditions; and other events outside of the City's control. There can be no assurances that actual costs will not significantly exceed the costs projected by the City. If the actual costs of operating and maintaining the Wastewater System and implementing necessary capital improvements (including the Series 2013 Project) significantly exceed the costs projected by the City, then there could be a material adverse impact on the ability of the City to generate System Net Revenues in the amounts required by the Indenture.

Statutory and Regulatory Impact

Laws and regulations governing the treatment and disposal of wastewater are enacted and promulgated by government agencies on the federal, State, and local levels. Compliance with these laws and regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs will likely increase. Claims against the City with respect to its facilities and services could be significant. Such claims are payable from assets of the City or from other legally available sources.

The City has identified a number of existing environmental conditions, as well as anticipated regulatory requirements, that could materially impact the City's operations, and require significant increases in the City's capital and operating costs. In particular, significant permits relating to the operation of the Wastewater System are subject to renewal in 2014 and 2015. See "THE WASTEWATER SYSTEM—Regulatory Compliance" and APPENDIX A—"FEASIBILITY CONSULTANT'S REPORT."

Although rates are the major source of funding for regulatory costs and the City has covenanted in the Indenture to establish such rates as are estimated to enable the City to pay debt service for the Series 2013 Bonds, no assurance can be given that the cost to remediate identified environmental conditions or to comply with increased requirements imposed as part of permit renewals, or by new laws and regulations will not materially adversely affect the City's ability to generate System Net Revenues in the amounts required by the Indenture and in the amounts required to pay debt service for the Series 2013 Bonds.

Potential Acceleration of Parity Obligations and Liquidity Facility Bonds; No Acceleration of Bonds

As described herein in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Obligations," since 1997 the City has entered into the SRF Loans in the aggregate available principal amount of approximately \$54 million, of which approximately \$24.1 million remains outstanding as of May 17, 2013. The SRF Loans provide that all payments thereunder may be immediately due and payable in the event of material breach by the City (and failure to cure). The Bonds (including the Series 2013 Bonds) are not subject to acceleration; however, if in the future any

Bonds are issued as Variable Rate Obligations, then such Bonds might be subject to acceleration if they become Liquidity Facility Bonds. In addition to the City's obligations with respect to the SRF Loans, other Parity Obligations issued or incurred by the City in the future may be subject to acceleration upon the occurrence of an event of default thereunder. There can be no assurances that the City's ability to pay debt service for the Series 2013 Bonds will not be materially adversely affected if the payments with respect to the SRF Loans, any Liquidity Facility Bonds, or any future Parity Obligations are accelerated.

Aging Components of Wastewater System

Significant portions of the pipeline within the Wastewater System are significantly older than their originally expected useful lives. There can be no assurances that this will not result in higher-than-expected pipe failures or higher-than-expected repair and replacement costs. See "THE WASTEWATER SYSTEM – Wastewater System Facilities."

Earthquake, Flood or Other Natural Disasters

In California the potential for natural disasters to cause catastrophic damage to any urban area, including its above-ground and below-ground wastewater infrastructure, is great. The occurrence of a flood, earthquake, or other natural disaster could result in the temporary or permanent closure of one or more components of the Wastewater System. Certain areas in the Wastewater System service area have been identified as being within a 100-year flood plain. See "THE WASTEWATER SYSTEM —Floods."

The occurrence of a flood, earthquake, or other natural disaster could result in significantly increased costs that could materially adversely affect the City's ability to operate the Wastewater System or to generate System Net Revenues at the levels required by the Indenture.

Commingling of System Revenues

As described herein in "THE WASTEWATER SYSTEM - Budgetary and Financial Procedures," the City commingles the System Revenues with its other funds. The Trustee and the Holders or Beneficial Owners of the Series 2013 Bonds may not have a perfected interest in such commingled System Net Revenues, and the City may not be required to turn over to the Trustee any System Net Revenues that are in its possession and have been commingled with other moneys. Under such circumstances, there could be delays or reductions in payments on the Series 2013 Bonds.

Effect of City Bankruptcy

The City is authorized to file for bankruptcy under certain circumstances. Should the City file for bankruptcy, there could be adverse effects on the Holders or Beneficial Owners of the Series 2013 Bonds.

If the System Net Revenues are "special revenues" under the Bankruptcy Code, then System Net Revenues collected after the date of the bankruptcy filing should be subject to the lien of the Indenture. "Special revenues" are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide utility services. Although the System Net Revenues appear to satisfy this definition and thus be "special revenues," no assurance can be given that a court would not hold that the System Net Revenues are not special revenues or

are not subject to the lien of the Indenture. If the System Net Revenues are determined to not be “special revenues,” then System Net Revenues collected after the commencement of the bankruptcy case will likely not be subject to the lien of the Indenture. The Holders or Beneficial Owners of the Series 2013 Bonds may not be able to assert a claim against any property of the City other than the System Net Revenues, and if these amounts are no longer subject to the lien of the Indenture, then there may be no amounts from which the Holders or Beneficial Owners of the Series 2013 Bonds are entitled to be paid.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the related project or system before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, the City may be able to use System Net Revenues to pay necessary operating expenses of the Wastewater System that are greater than or different from the Maintenance and Operation Costs defined in the Indenture before the remaining System Net Revenues are made available to the Trustee to pay amounts owed to the Holders or Beneficial Owners of the Series 2013 Bonds. It is not clear which expenses would constitute necessary operating expenses.

If the City is in bankruptcy, then the City’s creditors (including the Holders or Beneficial Owners of the Series 2013 Bonds) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City without the bankruptcy court’s permission. This prohibition may also prevent the Trustee from making payments to the Holders or Beneficial Owners of the Series 2013 Bonds from funds in the Trustee’s possession. The Rate Covenant (see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant”) may not be enforceable in bankruptcy by the Trustee or the Holders or Beneficial Owners of the Series 2013 Bonds.

The provisions of the Indenture that provide that the commencement of a bankruptcy case by the City is an Event of Default and that certain other insolvency-related events with respect to the City are also Events of Default may be unenforceable. This may limit the ability of the Trustee to require the City to turn over to the Trustee System Net Revenues and may allow the City to continue to spend System Net Revenues for any lawful purpose as provided in the Indenture, free and clear of the lien of the Indenture, notwithstanding that the City is in bankruptcy.

The City is permitted to commingle the System Revenues with its own funds for up to one year before transferring System Net Revenues to the Trustee. If the City goes into bankruptcy, the City may not be required to turn over to the Trustee any System Net Revenues that are in its possession at the time of the bankruptcy filing and have been commingled with other moneys. With respect to System Net Revenues collected after the bankruptcy filing, if the City does not voluntarily turn over such System Net Revenues to the Trustee, it is not entirely clear what procedures the Trustee and the Holders or Beneficial Owners of the Series 2013 Bonds would have to follow to attempt to obtain possession of such System Net Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Under such circumstances, there may be delays or reductions in payments on the Series 2013 Bonds.

The City may be able to borrow additional money that is secured by a lien on any of its property (including the System Net Revenues), which lien could have priority over the lien of the Indenture, as long as the bankruptcy court determines that the rights of the Trustee and the Holders or Beneficial Owners of the Series 2013 Bonds will be adequately protected. The City may be able to cause some of the System Net Revenues to be released to it, free and clear of lien of the Indenture, as

long as the bankruptcy court determines that the rights of the Trustee and the Holders or Beneficial Owners of the Series 2013 Bonds will be adequately protected.

The City may be able, without the consent and over the objection of the Trustee and the Holders or Beneficial Owners of the Series 2013 Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Indenture and the Series 2013 Bonds as long as the bankruptcy court determines that the alterations are fair and equitable.

As described herein in “THE WASTEWATER SYSTEM - Leasing of Certain Components of the Wastewater System,” the City has leased certain assets of the Wastewater System in connection with the City’s Master Lease Program. In bankruptcy, if the City decided not to, failed to, or was unable to assume the Master Project Lease, the City could lose its rights to the leased assets. Under such circumstances, the Trustee and the Holders or Beneficial Owners of the Series 2013 Bonds may no longer be entitled to receive any System Net Revenues generated by such leased assets, and the Wastewater System may experience an increase in operating costs, thereby further reducing the System Net Revenues available to pay debt service on the Series 2013 Bonds. Similarly, if the City is authorized by the bankruptcy court to assume the Master Project Lease and then assign it to a third party, the City could lose its rights to the leased assets. Under such circumstances, the Trustee and the Holders or Beneficial Owners of the Series 2013 Bonds may no longer be entitled to receive any System Net Revenues generated by such leased assets, and the Wastewater System may experience an increase in operating costs, thereby further reducing the System Net Revenues available to pay debt service on the Series 2013 Bonds.

There may be delays in payments on the Series 2013 Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the Series 2013 Bonds, or result in losses to the Holders or Beneficial Owners of the Series 2013 Bonds. Regardless of any specific adverse determinations in a City bankruptcy proceeding, the fact of a City bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2013 Bonds.

Effect of Losses in City Investment Pool

The City intends to invest the moneys in the Project Fund in the City’s Investment Pool A. Should those investments suffer any losses, then the City may have insufficient funds to complete the Project, System Net Revenues may be lower than expected, and there may be delays or reductions in payments on the Series 2013 Bonds.

Pending delivery of System Net Revenues to the Trustee, the City intends to invest System Revenues in the City’s Investment Pool A. Should those investments suffer any losses, there may be delays or reductions in payments on the Series 2013 Bonds.

Limitation on Remedies

If an Event of Default should occur, the Trustee and the Holders or Beneficial Owners of the Series 2013 Bonds will have no ability to accelerate any maturity of the Series 2013 Bonds. This means that even after an Event of Default occurs, the Series 2013 Bonds may be paid according to the regularly scheduled due dates. This may result in delays or reductions in payments on the Series 2013 Bonds compared to what would happen if the Trustee could accelerate the maturities of the

Series 2013 Bonds, and it could cause the market value of the Series 2013 Bonds to decline after the occurrence of an Event of Default.

Feasibility Consultant's Report

The Feasibility Consultant's Report included as Appendix A to this Official Statement contains certain assumptions and forecasts. The Feasibility Consultant's Report should be read in its entirety for a discussion of historical and forecast results of the Wastewater System and the assumptions and rationale underlying the forecasts. As noted in the Feasibility Consultant's Report, any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material.

Accordingly, the projections contained in the Feasibility Consultant's Report, and any projections that may be contained in any future certificate of the City or a consultant, are not necessarily indicative of future performance, and neither the Feasibility Consultant nor the City assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the City are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the Series 2013 Bonds are cautioned not to place undue reliance upon the Feasibility Consultant's Report or upon any projections or requirements for projections. If actual results are less favorable than the results projected, or if the assumptions used in preparing such projections prove to be incorrect, then the amount of System Net Revenues may be materially less than expected. Consequently, the ability of the City to make timely payments of the principal of and interest on the Series 2013 Bonds may be materially adversely affected.

Neither the City's independent auditors nor any other independent accountants have compiled, examined, or performed any procedures with respect to the System Net Revenues forecast. The City's independent auditors assume no responsibility for, and disclaim any association with, the System Net Revenues forecast; they have not expressed any opinion or any form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, the System Net Revenue forecast.

Potential Termination of Master Interagency Agreement

The current term of the Master Interagency Agreement with SRCSD expires on June 30, 2024, which is prior to the final maturity of the Series 2013 Bonds. If the Master Interagency Agreement expires, then the City will have to make other arrangements for the treatment of wastewater that it collects. While there can be no assurances that the Master Interagency Agreement will be renewed prior to its expiration, the City expects that the regional wastewater-treatment system operated by SRCSD will continue to constitute the most economically practical means of wastewater-treatment-and-disposal services for the Contributing Agencies throughout the term of the Series 2013 Bonds and beyond into the foreseeable future, and that the renewal of the Master Interagency Agreement beyond the term of the Series 2013 Bonds will occur. However, if the Master Interagency Agreement does expire, then there can be no assurances that any alternate arrangements entered into by the City for wastewater-treatment-and-disposal services would not result in significantly higher Operation and Maintenance Costs of the Wastewater System.

Certain Limitations on the Ability of the City to Impose Taxes, Fees and Charges

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 XIIC and XIID to the California Constitution, which contain 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 3 of article XIIC 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 XIIC 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 XIIC or in the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with articles XIIC and XIID (the “**Omnibus Act**”). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virgil* (the “**Bighorn Decision**”) that charges for ongoing water delivery are property-related fees and charges within the meaning of article XIID and are also fees or charges within the meaning of section 3 of article XIIC. 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 XIIC.

In the *Bighorn Decision*, the Supreme Court stated that nothing in section 3 of article XIIC 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 which 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 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 contracts clause of the United States Constitution. Additionally, the Omnibus Act 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 the effective date 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. However, no assurance can be given that the voters within the service area of the City will not, in the future, approve an initiative that reduces or repeals local taxes, assessments, fees, or charges. (In 2010, an initiative qualified for the November 2010 ballot which would have repealed rate increases for the City’s utilities, including the Wastewater System. The voters did not approve it.)

Article XIID 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.” 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 XIID. Article XIID requires that any public 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.

In addition, article XIID also includes a number of limitations applicable to existing fees and charges, including provisions to the effect that (1) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (2) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (3) 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 (4) 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.

On November 2, 2010, voters in the State approved Proposition 26, which amended article XIIC of the State Constitution by expanding the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, for performing investigations, inspections, and audits, for enforcing agricultural marketing orders, and for the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax; that the amount is no more than necessary to cover the reasonable costs of the governmental activity; and that the manner in which those costs are allocated to a payor bears a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. As of the date of this Official Statement, the City is unaware of any fees relating to the Wastewater System that would have to be reduced or eliminated because of Proposition 26.

The City believes that it has complied with the requirements of Proposition 218 with respect to the charges that it currently imposes.

In addition to imposing fees for wastewater service, the City also imposes development-impact fees as a condition for connecting new properties to the Wastewater System. The City does not believe that these development-impact fees are subject to Proposition 218.

Under the Indenture, the City has covenanted that it will set rates for Wastewater System services at specified levels. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Rate Covenant.” If proposed increased service charges cannot be imposed as a result of a majority protest or an initiative, then such circumstances may adversely affect the ability of the City to generate System Revenues in the amounts required by the Indenture and to pay principal and interest on the Series 2013 Bonds.

ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened that seeks to restrain or enjoin the issuance of the Series 2013 Bonds or to contest or affect in any way the validity of the Series 2013 Bonds or any proceedings of the City taken with respect to the execution, delivery, or sale thereof.

In addition, there is no litigation pending or threatened against the City which, in the opinion of the City Attorney, would materially adversely affect the Wastewater System or the sources of payment for the Series 2013 Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Series 2013 Bonds (1) to provide certain financial information and operating data relating to the City by not later than the end of the ninth month after the end of each Fiscal Year of the City (currently June 30th) (the “**Annual Report**”), commencing with the report for Fiscal Year 2012-13; and (2) to provide notices of the occurrence of certain enumerated events. Such reports are required to be filed with the Municipal Securities Rulemaking Board through its EMMA website. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is described in “APPENDIX E- FORM OF CONTINUING DISCLOSURE CERTIFICATE,” attached to this Official Statement. These covenants have been made in order to assist the Underwriter of the Series 2013 Bonds in complying with Securities Exchange Commission Rule 15c2-12(b)(5).

The City has entered into a number of prior continuing-disclosure undertakings under Rule 15c2-12(b)(5) in connection with the issuance of long-term obligations and has provided annual financial information and event notices in accordance with those undertakings. During the past five years, the City substantially complied with the requirements of its continuing-disclosure undertakings, with a few minor or technical exceptions. For example, in certain continuing-disclosure filings, the City provided links to the City’s website where documents could be downloaded, instead of submitting the documents as part of the filing itself; with respect to certain SCFA bonds involving the Sacramento Housing and Redevelopment Agency (“**SHRA**”), and also with respect to bonds of SHRA itself, the posting of the SHRA’s audited financial statements occurred after the due date; and certain filings related to the SCFA’s bonds and SHRA’s bonds did not expressly include all the required information (including in one year unaudited financial statements). In addition, certain filings were made after the required filing date.

The City believes it has established processes to ensure that in the future it will make its continuing disclosure filings as required.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“**Bond Counsel**”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2013 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “**Code**”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2013 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Series 2013 Bonds is less than the amount to be paid at maturity of such Series 2013 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2013 Bonds), the difference constitutes “**original issue discount**,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2013 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2013 Bonds is the first price at which a substantial amount of such maturity of the Series 2013 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2013 Bonds accrues daily over the term to maturity of such Series 2013 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2013 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2013 Bonds. Beneficial Owners of the Series 2013 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2013 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2013 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2013 Bonds is sold to the public.

Series 2013 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“**Premium Bonds**”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2013 Bonds. The City has made certain representations and covenanted to comply with certain restrictions,

conditions and requirements designed to ensure that interest on the Series 2013 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2013 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2013 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2013 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2013 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2013 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2013 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2013 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration's proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the Series 2013 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2013 Bonds. Prospective purchasers of the Series 2013 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2013 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2013 Bonds ends with the issuance of the Series 2013 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Series 2013 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in

the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2013 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2013 Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGALITY

The validity of the Series 2013 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. A complete copy of the proposed form of Bond Counsel Opinion is contained in Appendix F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP, and for the by the City Attorney and its disclosure counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

RATINGS

Standard & Poor's and Fitch are expected to assign the Series 2013 Bonds the long-term ratings of “__” and “___,” respectively.

The ratings reflect only the respective views of the rating agencies, and any explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Standard & Poor's, 55 Water Street, 38th Floor, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or either of them, if, in their respective judgments, circumstances so warrant. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the Series 2013 Bonds.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “**Underwriter**”) has agreed, subject to certain conditions, to purchase the Series 2013 Bonds at a price of \$_____ (consisting of the aggregate principal amount of the Series 2013 Bonds plus original issue premium of \$_____ less Underwriter's discount of \$_____). The Bond Purchase Agreement relating to the Series 2013 Bonds provides that the Underwriter will purchase the Series 2013 Bonds if any are purchased. The Series 2013 Bonds may be offered and sold by the Underwriter to certain dealers and others at prices lower than such public offering price, and such public offering price may be changed, from time to time, by the Underwriter.

INDEPENDENT AUDITOR

Audited financial statements of the City (including the Wastewater Fund) for the Fiscal Year ended June 30, 2012, are attached hereto as Appendix B. The City's financial statements were audited by the independent accounting firm of Macias Gini & O'Connell LLP of Sacramento, California (the “**Auditors**”). The Auditors have not reviewed or audited this Official Statement and

the City has not sought the consent of the Auditors to the inclusion of the Auditor's report in this Official Statement. The audited financial statements include information concerning the City's General Fund and other funds, including the Wastewater Fund and the other enterprise funds relating to, the City's Wastewater System, solid-waste system and stormwater-drainage system. The Series 2013 Bonds are special obligations of the City, secured by and payable solely from the Trust Estate. No other funds of the City are available for payment of the Series 2013 Bonds.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Series 2013 Bonds.

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

CITY OF SACRAMENTO

By: _____
Russell T. Fehr, City Treasurer

APPENDIX A
FEASIBILITY CONSULTANT'S REPORT

APPENDIX B
AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The audited financial statements of the City have been prepared in accordance with generally accepted accounting principles. The projected operating results and certain other information presented in the Official Statement and in the Feasibility Consultant's Report have been prepared in accordance with the requirement and definitions contained in the Indenture, which may differ from generally accepted accounting principles.

The audited financial statements include information concerning the City's General Fund and other funds, including the Wastewater Fund, funds relating to the City's water system, solid-waste system and stormwater-drainage system. The Series 2013 Bonds are special obligations of the City, secured by and payable solely from the Trust Estate. No other funds of the City are available for payment of the Series 2013 Bonds.

APPENDIX C
GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING
THE CITY OF SACRAMENTO

APPENDIX D
SUMMARY OF THE INDENTURE

APPENDIX E
FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX F
PROPOSED FORM OF BOND COUNSEL OPINION

APPENDIX G BOOK-ENTRY ONLY SYSTEM

The information in this section regarding DTC and its book-entry system has been obtained from DTC's website, for use in securities offering documents, and the City and the Underwriter take no responsibility for the accuracy or completeness thereof or for the absence of material changes in such information after the date hereof.

The Depository Trust Company ("**DTC**"), New York, New York, will act as securities depository for the Series 2013 Bonds. The Series 2013 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 certificate will be issued for each maturity of the Series 2013 Bonds, each in the aggregate principal amount of such maturity, 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, as amended. 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 Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2013 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 Series 2013 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 the Series

2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all 2013 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 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2013 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 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, tenders, defaults and proposed amendments to the 2013 Bond documents. For example, Beneficial Owners of 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 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 the notices be provided directly to them.

While the Series 2013 Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2013 Bonds of a maturity 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 the Series 2013 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 City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2013 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 City or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City 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 Series 2013 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2013 Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2013 Bonds will be printed and delivered to DTC.

The information in this Appendix F concerning DTC and DTC's book-entry system has been obtained from sources that the City and the City believes to be reliable, but the City and the Underwriter do not take any responsibility for the accuracy thereof.

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the CITY OF SACRAMENTO (the “City”) in connection with the issuance of its Wastewater Revenue Bonds, Series 2013 (the “Series 2013 Bonds”). The Series 2013 Bonds are being issued pursuant to an Indenture, dated as of April 1, 2013, as supplemented by the First Supplemental Indenture dated as of April 1, 2013 (as supplemented, the “Indenture”), between the City and U.S. Bank National Association, as trustee. In connection therewith the City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. The Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Series 2013 Bonds and in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (“SEC”).

SECTION 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in the Disclosure Certificate unless otherwise defined in this section, the following capitalized terms have the following meanings:

“Annual Report” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of the Disclosure Certificate.

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories, or other intermediaries).

“EMMA System” means the MSRB’s Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

“Listed Event” means any of the events listed in Section 5(a) of the Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board.

“Rule” means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” means the State of California.

“Underwriter” means Merrill Lynch, Pierce, Fenner & Smith Incorporated, who is required to comply with the Rule in connection with offering of the Series 2013 Bonds.

SECTION 3. Provision of Annual Reports.

(a) The City shall, not later than the end of the ninth month following the end of the City’s Fiscal Year (presently June 30), commencing with the report for the 2012-13 Fiscal Year, provide to the MSRB through the EMMA System (in an electronic format and accompanied by identifying information all as prescribed by the MSRB) an Annual Report that is consistent with the requirements of Section 4 of the Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents composing a package and may cross-reference other information as provided in Section 4 of the Disclosure Certificate, except that the audited financial

statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's Fiscal Year changes, then the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in Section 3(a), the City shall send to the MSRB a notice in substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain the CUSIP numbers of the Series 2013 Bonds and include by reference the following:

(a) The audited financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If, however, the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), then the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) An annual report updating the following tables contained in the Official Statement for the Series 2013 Bonds, dated [June __, 2013], to reflect actual results of the most recently completed fiscal year (projections need not be updated):

- (1) Table 1 – Number of Connections by User Type
- (2) Table 2 – Largest Users by Service Charge Revenues
- (3) Table 4 – Selected Monthly Rates
- (4) Table 5 – Uncollected Wastewater System Charges

(5) Table 8 – Summary of Projected Operating Results (to be updated to show actual results of most recently completed fiscal year; projections of future fiscal years do not have to be updated or included in Annual Report)

Any or all of the items listed above may be included by specific reference to other documents, including the audited financial statements or the official statements of debt issues of the City, that have been submitted to the MSRB or the Securities and Exchange Commission, subject to the following: if any document included by reference is a final official statement, then it must be available from the MSRB, and the City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2013 Bonds in a timely manner not more than 10 business days after the event:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Issuance by the Internal Revenue Service (the “IRS”) of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes; or
- (9) Bankruptcy, insolvency, receivership or similar event of the City.

Note: for the purposes of the event identified in Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City 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 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2013 Bonds, if material:

- (1) Unless described in Section 5(a)(5), adverse tax opinions or other material notices or determinations by the IRS with respect to the tax status of the Series 2013 Bonds or other material events affecting the tax status of the Series 2013 Bonds;
- (2) Modifications to rights of holders of the Series 2013 Bonds;
- (3) Optional, unscheduled or contingent bond calls;
- (4) Release, substitution, or sale of property securing repayment of the Series 2013 Bonds;
- (5) Non-payment related defaults;
- (6) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an

action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(7) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City shall as soon as possible determine if such event would be material under applicable federal securities laws. If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than 10 business days after the event.

SECTION 6. Termination of Reporting Obligation. The City's obligations under the Disclosure Certificate shall terminate (a) upon the legal defeasance, prior redemption, or payment in full of all of the Series 2013 Bonds; or (b) if, in the opinion of nationally recognized bond counsel, the City ceases to be an "obligated person" (within the meaning of the Rule) with respect to the Series 2013 Bonds, or the Series 2013 Bonds otherwise cease to be subject to the requirements of the Rule. If such termination occurs prior to the final maturity of the Series 2013 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the City may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, if all of the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Series 2013 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2013 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (1) is approved by the Holders of the Series 2013 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders or (2) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series 2013 Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the City shall describe such amendment 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 City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, then the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and the Annual Report for the year in which the change is made must 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 8. Additional Information. Nothing in the Disclosure Certificate prevents the City (a) from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication; or (b) from including any other information in any Annual Report or notice of occurrence of a Listed Event in addition to that required by the Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that specifically required by the Disclosure Certificate, the City shall have no obligation under the Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the City to comply with any provision of the Disclosure Certificate, the Underwriter or any Holder or Beneficial Owner of the Series 2013 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Disclosure Certificate in the event of any failure of the City to comply with the Disclosure Certificate shall be an action to compel performance hereunder.

SECTION 10. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the City, the Underwriter, and the Holders and Beneficial Owners from time to time of the Series 2013 Bonds, and it creates no rights in any other person or entity.

CITY OF SACRAMENTO, CALIFORNIA

By: _____
Russell T. Fehr, City Treasurer
Dated: June __, 2013

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Sacramento, California

Name of Issue: \$_____ Wastewater Revenue Bonds, Series 2013 (the "Series 2013 Bonds")

Date of Issuance: June __, 2013

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture, dated as of April 1, 2013, as supplemented by the First Supplemental Indenture dated as of April 1, 2013 (the "Indenture"), between the City and U.S. Bank National Association, as trustee. The City anticipates that the Annual Report will be filed by _____

Dated: _____, _____

CITY OF SACRAMENTO, CALIFORNIA

By: _____
City Treasurer



State Water Resources Control Board

TERMINATION AND CONSENT AGREEMENT

This agreement, dated March 22, 2013, for reference, is between the CITY OF SACRAMENTO, a California municipal corporation (the “City”); and the STATE OF CALIFORNIA, acting through the STATE WATER RESOURCES CONTROL BOARD (the “SWRCB”).

Background

The City and the SWRCB have previously entered into the following loan contracts (collectively, the “Loan Contracts”):

- the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 7-819-550-0, Loan No. C-06-4441-110), dated as of September 30, 1997;
- the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 7-829-550-0, Loan No. C-06-4441-120), dated as of April 10, 1998;
- the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 99-831-550-0, Loan No. C-06-4653-110), dated as of April 27, 2000;
- the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 99-826-550-0, Loan No. C-06-4652-110), dated as of May 3, 2000; and
- the Clean Water State Revolving Fund Loan Program Loan Contract (Contract No. 00-806-550-0, Loan No. C-06-4685-110), dated as of September 7, 2000.

Each of the Loan Contracts provides that the City may incur future debt “on a parity with, or subordinate to, the [State Revolving Fund] debt.”

In connection with the execution and delivery of the Loan Contracts, the Sacramento City Council adopted the following resolutions, each of which dedicates revenue from the City’s Sewer Fund, now renamed “Wastewater Fund” and so identified below, to repayment of the associated loan (collectively, the “Resolutions”):

- Resolution No. 98-023, which provides that “The City of Sacramento hereby dedicates revenue from the Sewer Fund and the Storm Drainage Fund to repayment of any and all State Revolving Fund loans on Project No. C-06-4441-110”;

- Resolution No. 98-132, which provides that “The City of Sacramento hereby dedicates revenue from the Sewer Fund and the Storm Drainage Fund to repayment of any and all State Revolving Fund loans on Project No. C-06-4441-120”;
- Resolution No. 2000-141, which provides that “The City of Sacramento hereby dedicates revenue from the Sewer Fund and the Storm Drainage Fund to repayment of any and all State Revolving Fund loans on Project No. C-06-4653-110”;
- Resolution No. 99-543, which provides that “The City of Sacramento hereby dedicates revenue from the Sewer Fund and the Storm Drainage Fund to repayment of any and all State Revolving Fund loans on Project No. C-06-4652-110”; and
- Resolution No. 2000-519, which provides that “The City of Sacramento hereby dedicates revenue from the Sewer Fund and the Storm Drainage Fund to repayment of any and all State Revolving Fund loans on Project No. C-06-4685-110.”

Each of the Resolutions provides that “[t]his dedicated source of revenue shall remain in effect until such loan or loans are fully discharged, unless modification or change of such dedications is approved in writing by the State Water Resources Control Board.”

The City desires to undertake a capital-financing program to finance and refinance improvements to its wastewater system by issuing revenue bonds (the “**Wastewater Revenue Bonds**”) and incurring other obligations from time to time. To obtain a favorable interest rate on these bonds and obligations, the City desires that they be secured on parity with the Loan Contracts. But the revenue dedications in the Resolutions do not allow the City to secure parity debt by the dedicated revenue. The Resolutions thus are inconsistent with the intent of the parties evidenced by the Loan Contracts, which do expressly provide that the City may incur future debt on a parity with the Loan Contracts.

It thus is necessary that corrective actions be taken to allow for the Wastewater Revenue Bonds to be secured by a pledge of the City’s revenues from the Wastewater Fund on an equal and parity basis with the Loan Contracts. To that end, the SWRCB and the City intend by this agreement that the dedication of revenue from the Wastewater Fund to the repayment of the Loan Contracts be released and terminated and that the Loan Contracts simultaneously be secured as “Parity Obligations” by the pledge contained in the Indenture, dated as of April 1, 2013, between the City and U.S. Bank National Association, as trustee (the “**Trustee**”), relating to the issuance of the Wastewater Revenue Bonds (together with any amendments or supplements thereto or a replacement indenture relating to refunding bonds, the “**Indenture**”).

The Indenture defines “**Parity Obligations**” to include the Loan Contracts and thus provides that the Loan Contracts are secured by the pledge of, and payable from, the “**Trust Estate**” (defined in the Indenture to include revenues from the wastewater system less maintenance and operation costs) on a parity basis with the Wastewater Revenue Bonds and other Parity Obligations, all as provided in the Indenture.

The SWRCB and the City intend that the release and termination of the dedication of revenue from the Wastewater Fund by the Resolutions and under the Loan Contracts, and the simultaneous provision in the Indenture of the lien on the Trust Estate to secure the Loan Contracts on a parity with the Wastewater Revenue Bonds and other Parity Obligations, are the only changes made by this agreement to the Loan Contracts and the Resolutions.

With these background facts in mind, the parties agree as follows:

1. As of the date of issuance of the Wastewater Revenue Bonds, Series 2013 (the “**Termination Date**”), the SWRCB’s rights under the Resolutions, to the extent they relate to the dedication of revenues from the Wastewater Fund for the repayment of the Loan Contracts and only to that extent, are in all instances and for all purposes fully and finally released and terminated, and the dedication of revenues from the Wastewater Fund to the repayment of the Loan Contracts under the Resolutions and the Loan Contracts is hereby so released and terminated as of the Termination Date. This agreement constitutes the SWRCB’s written approval to the modifications made by this agreement to the dedications of the revenues from the Wastewater Fund set forth in the Resolutions. All other terms of the Loan Contracts and Resolutions, including but not limited to terms relating to the dedication of revenues from the Storm Drainage Fund to repayment of the Loan Contracts and the City’s covenants and the SWRCB’s rights and remedies under the Loan Contracts and the Resolutions, remain in full force and are not amended or otherwise affected in any way by this agreement.
2. Simultaneously with the release and termination described in Section 1 above, the City’s payment obligations under the Loan Contracts are Parity Obligations secured by the pledge of the Trust Estate on a parity with the Wastewater Revenue Bonds and other Parity Obligations as provided in the Indenture. The City hereby so designates its payment obligations under the Loan Contracts as Parity Obligations under the Indenture, and the City shall provide copies of this agreement and the Loan Contracts to the Trustee. The City and the SWRCB hereby designate the Trustee under the Indenture as the City’s paying agent for the City’s repayment of the Loan Contracts. The City shall periodically instruct the Trustee regarding the amounts to be set aside or transferred by the Trustee in respect of the Loan Contracts in accordance with Section 5.02 of the Indenture.
3. Until the final payment or discharge of all the Loan Contracts, the City shall cause its payment obligations under the Loan Contracts to be secured as Parity Obligations under the Indenture at all times on an equal basis with the Wastewater Revenue Bonds and other Parity Obligations all as provided in the Indenture.

4. The City may, without the SWRCB's consent, supplement the Indenture in connection with the issuance of obligations under the Indenture, subject to the following provision which only applies until the final payment or discharge of all the Loan Contracts: without the SWRCB's written consent, the City may not under any circumstances modify the pledge of the Trust Estate set forth in the Indenture, or the provisions in the Indenture for payment of Parity Obligations, or the provisions set forth in Section 3.02(D) of the Indenture.
5. Each person who signs this agreement on behalf of a party represents that he or she is authorized to sign this agreement for that party and to bind that party to the obligations imposed on it by this agreement.
6. This agreement binds and inures to the benefit of the parties and their successors and assigns.
7. If a court with jurisdiction rules that any nonmaterial part of this agreement is invalid, unenforceable, or contrary to law or public policy, then the rest of this agreement remains valid and fully enforceable.
8. The parties may sign this agreement in counterparts, each of which will be considered an original, but all of which will constitute the same agreement.
9. This agreement is to be interpreted and applied in accordance with California law.
10. This agreement takes effect on the Termination Date.

(Signature Page Follows)

City of Sacramento

By: _____
John F. Shirey
City Manager
Date: _____, 2013

Attest
Sacramento City Clerk

By: _____

Approved as to Form
Sacramento City Attorney

By: J. Cerullo
Joseph P. Cerullo
Senior Deputy City Attorney

**State of California
State Water Resources Control Board**

By: EL Haven
Elizabeth L. Haven
Deputy Director
Division of Financial Assistance
Date: 3/22, 2013

City of
SACRAMENTO

Office of the City Treasurer

Conservative Financing Approach

- 30-year structure
- Fixed-rate financing
- Level Debt Service
- Debt modeling based on market rates as of May 24, 2013 + 25 basis points (0.25%)
- Bond proceeds ~ \$30 million
- Estimated annual debt service of \$2 million

Use of Wastewater Bond Proceeds



Source of Repayment

- Only Wastewater revenues are the pledge of security and payment of the bonds.
- City's General Fund will have no obligation for the debt-service payments and will not be pledged as security for the bonds.

Bond Covenants

- Bond Reserve Fund = 50% of the Maximum Annual Debt Service amount
- Debt Service Coverage
 - 1.20x (New Debt + State Revolving Fund Loans)
- Rate Stabilization Fund = *Best Practice*. Initial deposit in the amount of \$2.5 million
 - Smooth the flow of revenue

Next Steps

- Week of June 10
 - Release final Preliminary Official Statement
- Week of June 17
 - Pre-pricing / Pricing of bonds
- Week of June 24
 - Bond Closing; bond proceeds available

Questions ?