



City Council Report

915 I Street, 1st Floor
Sacramento, CA 95814

www.cityofsacramento.org

File #: 2016-01337

December 6, 2016

Discussion Item 20

Title: Authorize the Issuance and Sale of City of Sacramento Water Revenue Bonds, Series 2017

Recommendation: Pass a Resolution authorizing 1) the issuance of City of Sacramento Water Revenue Bonds, Series 2017, to finance the acquisition, construction, and installation of certain water-related capital-improvement projects, with the aggregate principal amount not to exceed \$130 million; 2) the execution and delivery on the City's behalf of an Official Statement, a Second Supplemental Indenture, a Bond Purchase Agreement, a Continuing Disclosure Certificate, an Agreement for Bond-Counsel Services, a Disclosure-Counsel Agreement, and related financing documents; and 3) the revenue and expenditure budgets for the Bonds.

Location: Citywide

Contact: John Colville, Interim City Treasurer, (916) 808-8297; Brian Wong, Debt Manager, (916) 808-5811; Nii Laryea, Debt Analyst, (916) 808-5517, Office of the City Treasurer

Presenter: Nii Laryea, Debt Analyst, (916) 808-5517, Office of the City Treasurer

Department: Office of the City Treasurer

Attachments:

- 1-Description/Analysis
- 2-Resolution Authorizing the Issuance of Bonds
- 3-Resolution Approving the Revenue and Expenditure Budgets
- 4-Preliminary Official Statement
- 5-Second Supplemental Indenture
- 6-Bond Purchase Agreement
- 7-Continuing Disclosure Agreement

Description/Analysis

Issue Detail: On March 29, 2016, the City Council approved water-rate adjustments over each of the next four years. The 10% increase in water rates each year through FY 2019-20 will provide the revenue needed to complete critical replacement and improvement projects to keep the City's water systems safe, reliable, and financially stable. The additional revenue will be used to ensure the City remains in compliance with state and federal regulations requirements that water meters be installed citywide by 2025.

In 2005, the Department of Utilities ("**DOU**") began one of the most significant capital-improvement projects in its history to complete the installation of water meters on more than 80% of the City's water-service connections by January 1, 2025, in order to convert its customers to a metered rate as required by state mandate (Statutes 2004, chapter 884 (A.B. 2572)). *This project is known as the Accelerated Meter Installation and Pipe Replacement Program (the "**Project**").*

Last year, in response to current drought conditions, the City Council moved to accelerate the Project's completion date by four years, from January 1, 2025, to December 31, 2020 (Resolution No. 2015-0056). This acceleration will allow the City to defer \$65 million in costs by retrofitting rather than replacing some backyard water mains and to save an additional \$5 million by installing meters in landscaped areas of front yards rather than in sidewalks. To implement these goals, the City will need to finance a portion of the Project by issuing bonds backed by revenues from the water system. These bonds will officially be designated as the City of Sacramento Water Revenue Bonds, Series 2017 (the "**Series 2017 Bonds**").

The portion of the Project to be financed with Series 2017 Bonds consists of—

- rehabilitation of certain components of the City's water treatment plants and/or reservoirs;
- acquisition and installation of approximately 25,000 water meters;
- replacement of aging infrastructure, including distribution and transmission mains and equipment; and,
- modernization of the City's billing system.

In August 2016, the City Treasurer's Office, working collaboratively with other City departments (Utilities, City Attorney's Office, and Finance) (collectively, "**City Staff**") and external members of the financing team—the lead 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. ("**Disclosure Counsel**")—began working toward the goal of issuing the Series 2017 Bonds to finance

certain capital-improvement projects that are expected to be awarded in April 2017. The portion of the Project to be financed with the Series 2017 Bonds will not exceed \$130 million.

Policy Considerations: The Series 2017 Bonds will be secured by a pledge of the water-system revenues and will require the City to comply with specified debt-service-coverage requirements and will be on a parity basis with existing water-related debt obligations.

Economic Impacts: Not applicable.

Environmental Considerations: None.

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: Issuing the Series 2017 Bonds to finance a portion of the Project is necessary to achieve the City's objectives of (1) rehabilitating certain components of the City's water-treatment plants and reservoir(s); (2) acquiring and installing water meters; (3) replacing aging infrastructure, including distribution and transmission mains and equipment; (4) complying with state law that mandates the installation of water meters citywide; and (5) modernizing the City's billing system.

Financial Considerations: DOU has identified the Project need over the next four years of \$275.4 million, of which up to \$119.8 million in projects will be funded from proceeds of the Series 2017 Bonds. It is estimated that debt service on the bonds will be approximately \$7.5 million each year from FY 2017-18 through FY 2047-48.

The City Treasurer's Office worked with BAML to run numerous debt-modeling scenarios designed to meet the constraints of the Water Fund's cash flow while providing sufficient bond proceeds to finance capital-improvement projects described above. Below are some of the assumptions the Treasurer's Office took into consideration:

- Traditional 30-year maturity structure
- Fixed-rate
- Level Annual Debt Service (roughly equal payments each year)

Based on interest rates as of November 9, 2016, with a buffer built into to account for interest-rate sensitivity, \$130 million in bond proceeds would require ongoing debt-service payments of approximately \$7.5 million each year through FY 2047-48. After issuing the Series 2017

Bonds, the City will be required to comply with the following debt service coverage requirements: for any fiscal year, the net revenues from the water system must equal or exceed (a) 120% of debt service on all outstanding parity obligations, i.e., obligations equally secured by the revenues; (b) 110% of debt service on all outstanding parity obligations, and outstanding subordinate obligations secured by the revenues; and (c) 100% of debt service on all obligations paid from the net revenues from the water system.

Additionally, the City will maintain a rate-stabilization fund consisting of water-system revenues in an amount equal to 25% of total annual debt service, i.e., debt service on the Series 2017 Bonds, other parity obligations, subordinate obligations, and unsecured obligations. On the date of issuance of the Series 2017 Bonds, anticipated to be in February 2017, approximately \$6.8 million will be on deposit in the rate-stabilization fund. 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.

Importantly, debt-service payments for the Series 2017 Bonds will be the exclusive responsibility of the City's Water 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.

Local Business Enterprise (LBE): Not applicable.

RESOLUTION NO. 2016-XXXX

Adopted by the Sacramento City Council

December 6, 2016

AUTHORIZING THE ISSUANCE AND SALE OF CITY OF SACRAMENTO WATER REVENUE BONDS, SERIES 2017, TO FINANCE THE COSTS OF CERTAIN IMPROVEMENTS TO THE CITY'S WATER SYSTEM; APPROVING THE OFFICIAL STATEMENT RELATED TO THE BONDS; APPROVING THE FORMS OF RELATED FINANCING DOCUMENTS; AUTHORIZING THE CITY TREASURER OR HIS OR HER 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 a municipal corporation 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 water service, all of which are included in and compose the City's water-enterprise system (the "**Water System**").
- F.** The City is empowered by the Law to issue its bonds for the purpose of financing certain improvements to the Water System.
- G.** In connection with the issuance of bonds for the purpose of financing certain improvements to the Water System, the City and U.S. Bank National Association, as trustee, have entered into the Indenture dated as of March 1, 2013 (the "**Indenture**").

- H. The City Department of Utilities has identified a Water CIP need for fiscal year 2017-2020 of approximately \$275.4 million, a portion of which is expected to be funded from the proceeds of the issuance of water-revenue bonds.
- I. In accordance with the Law, the City has determined to issue the City of Sacramento Water Revenue Bonds, Series 2017 (the “**Series 2017 Bonds**”), in the aggregate principal amount not to exceed \$130 million, in order to (a) finance the costs of certain improvements to the Water System; (b) fund a debt-service-reserve fund, if the Authorized Representative (defined in section 3(a) below) determines that one is required; and (c) fund the costs of issuance of the Series 2017 Bonds.
- J. In furtherance of the City’s issuance of the Series 2017 Bonds, forms of the following documents have been filed with the City Clerk for consideration and approval by the City Council:
- A *Second Supplemental Indenture* (the “**Second Supplemental Indenture**”) providing for the issuance of the Series 2017 Bonds under the Indenture and specifying certain terms of the Series 2017 Bonds.
 - A *Bond Purchase Agreement* (the “**Bond Purchase Agreement**”) under which, among other things, the City agrees to sell, and the underwriters of the Series 2017 Bonds named in the Bond Purchase Agreement (the “**Underwriters**”) agree to purchase, the Series 2017 Bonds.
 - A preliminary form of an *Official Statement* (the “**Official Statement**”) describing the Series 2017 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 2017 Bonds.
- K. The Series 2017 Bonds will be limited obligations of the City secured by a pledge of, and payable solely from, the net revenues of the Water System and the other collateral pledged under the Indenture, subject to the application of the net revenues of the Water 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 City’s General Fund is not liable for, and neither the City’s credit nor its taxing power is pledged for, the payment of the Series 2017 Bonds.
- L. All acts, conditions, and things required by the Law 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 2017 Bonds and consummation of the financing hereby authorized do exist, have happened, and have been performed in regular and due time, form, and manner, and the City is now duly authorized and empowered to authorize the issuance of the Series 2017 Bonds and to authorize the execution and delivery of the Second

Supplemental Indenture, the Bond Purchase Agreement, the Official Statement, and the Continuing Disclosure Certificate 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 L of the Background are true.
- Section 2.** The City's issuance of City of Sacramento Water Revenue Bonds, Series 2017, in an aggregate principal amount not to exceed \$130 million and in accordance with the Indenture and the Second Supplemental Indenture, as finally executed and delivered, is hereby authorized and approved.
- Section 3.** The proposed form of the Second Supplemental Indenture on file with the City Clerk, and its terms and conditions, are hereby approved. The structure, date, maturity date or dates (the final maturity to be not later than September 1, 2047), fixed interest rates, interest-payment dates, forms, registration privileges, place or places of payment, terms of redemption, number, and other terms of the Series 2017 Bonds will be as provided in the Indenture and the Second Supplemental Indenture as finally executed and delivered.
- (a) As used in this resolution, "City Treasurer" includes any Interim City Treasurer or Acting City Treasurer. The City Treasurer or his or her designee (the "**Authorized Representative**") is hereby authorized and directed to execute and deliver the Second Supplemental Indenture on the City's behalf, in substantially the form on file with the City Clerk and with such changes as the Authorized Representative approves with the concurrence of the City Attorney or his designee (the "**City Attorney**"), with approval to be conclusively evidenced by the execution and delivery thereof.
 - (b) The Series 2017 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 Second Supplemental Indenture. When the Series 2017 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 2017 Bonds and deliver them to the Underwriters 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 2017 Bonds to the Underwriters in

accordance with the Bond Purchase Agreement upon payment by the Underwriters of the purchase price for the Series 2017 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 2017 Bonds to the Underwriters as required by the Bond Purchase Agreement, with a true interest cost not to exceed 5.25% and with the Underwriters' compensation not to exceed 2.00% of the principal amount of the Series 2017 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 approves with the City Attorney's concurrence, with 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 Underwriters, 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 Underwriters are hereby authorized to distribute the Official Statement in preliminary and final forms. 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 approves with the City Attorney's concurrence, with 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 approves with the City Attorney's concurrence, with approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. 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 2017 Bonds (including, without limitation, any amendment of

any of the documents authorized by this resolution or any other agreement related to the Series 2017 Bonds; any investment of proceeds of the Series 2017 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 to 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 8. 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 9. 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 determine whether the Series 2017 Bonds will be secured by any reserve fund and whether the Series 2017 Bonds will be Participating Bonds (as defined in the Indenture);
- (b) to purchase municipal-bond insurance or other credit enhancement for some or all of the Series 2017 Bonds;
- (c) to purchase one or more reserve-fund surety policies or other credit instruments for the benefit of any reserve fund established for the Series 2017 Bonds;
- (d) to obtain a particular rating or ratings on all or a portion of the Series 2017 Bonds and take such other actions as may be necessary to obtain the rating or ratings;

- (e) 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
- (f) to negotiate and approve, with the concurrence of the City Attorney, any covenants of the City or changes to the proposed forms of the Second Supplemental Indenture, Bond Purchase Agreement, Official Statement, and Continuing Disclosure Certificate 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 2017 Bonds.

Section 10. All actions previously 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 2017 Bonds and the other transactions contemplated by this resolution and by the Official Statement are hereby ratified, confirmed, and approved.

Section 11. This resolution takes effect when adopted.

RESOLUTION NO. 2016-XXXX

Adopted by the Sacramento City Council

December 6, 2016

APPROVING THE REVENUE AND EXPENDITURE BUDGETS FOR THE CITY'S WATER REVENUE BONDS, SERIES 2017

BACKGROUND:

- A. In 2005, the City's Department of Utilities ("**DOU**") began one of the most significant capital improvement projects in its history to complete the installation of water meters on more than 80% of the City's water-service connections by January 1, 2025, in order to convert its customers to a metered rate as required by state mandate (Statutes 2004, chapter 884 (A.B. 2572)). This project is known as the Accelerated Meter Installation and Pipe Replacement Program (the "**Project**").
- B. Last year, in response to current drought conditions, the City Council moved to accelerate the Project's completion date by four years, from January 1, 2025, to December 31, 2020 (Resolution No. 2015-0056).
- C. On March 29, 2016, the City Council approved water-rate adjustments over each of the next four years. The 10% increase in water rates each year through fiscal year 2019-2020 will provide the revenue needed to complete critical replacement and improvement projects to keep the City's water systems safe, reliable, and financially stable. The additional revenue will be used to finance a portion of the Project. Other funding sources for the remaining portion of the Project may include revenues from rates, fees, and charges collected for water service (i.e., pay-as-you-go funding) and one or more State Revolving Fund loans.
- D. To provide funds for the rehabilitation of certain components of the City's water-treatment plants and reservoirs, the acquisition and installation of approximately 25,000 water meters, replacement of aging infrastructure (including distribution mains, transmission mains, and equipment at both treatment plants and the City's water-quality laboratory that has reached the end of its useful life), and modernization of the City's billing system, the City Council will adopt a separate resolution that authorizes the issuance of bonds designated as City of Sacramento Water Revenue Bonds, Series 2017 (the "**Series 2017 Bonds**").
- E. To implement the Project and properly account for proceeds from the Series 2017 Bonds, the City Council must 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 2017 Bonds: approve all financial transactions, budgets, and appropriations needed to carry out the financing of the Project in accordance with the law and City policy. As used in this resolution, “**City Treasurer**” includes any Interim City Treasurer or Acting City Treasurer, and “**City Manager**” includes any Interim City Manager or Acting City Manager.
- 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 (a) the establishment of funds and investment portfolios and (b) the simultaneous funding of a special account from current Water Fund assets, known as the “Rate Stabilization Fund,” in an amount equal to 25% of total annual debt service of the Series 2017 Bonds. On the date of issuance of the Series 2017 Bonds, which is anticipated to be in March 2017, approximately \$6.8 million will be on deposit in the Rate Stabilization Fund.
- Section 3.** The City of Sacramento Capital Improvement Program 2016-2021 is hereby amended to reflect the appropriations outlined in Exhibit A to this resolution, which will be supported by the proceeds from the sale of the Series 2017 Bonds.
- Section 4.** The City Treasurer’s Office, the City Attorney’s Office, the City’s Department of Finance, and the DOU are each authorized to be reimbursed from proceeds of the Series 2017 Bonds for reasonable costs incurred, including staff time, in connection with the issuance and sale of the Series 2017 Bonds. Cost-of-issuance expenditures in connection with the Series 2017 Bonds may not be paid unless the City Treasurer’s Office has approved the expenditures in writing.

EXHIBIT A

**Resolution Approving the Revenue and Expenditure Budgets for the
City's Water Revenue Bonds, Series 2017**

Budget for Water Revenue Bonds, Series 2017	
Project Description	Maximum Budget
Water Meter Program	\$ 114,534,000
Reservoir Rehabilitation	850,000
E.A. Fairbairn Water Treatment Plant Rehabilitation	1,425,594
Utility Billing System Upgrade	2,400,000
Sacramento River Water Treatment Plant Rehabilitation	610,969
Total	\$ 119,820,563

This maximum budget includes project costs that will be funded through bond proceeds if the State Water Resources Control Board does not approve City's State Revolving Fund Loan by April 2017. The estimated budget if the loan is approved by April 2017 is \$67,435,563, allocated as follows:

Project Description	
Water Meter Program	\$ 64,549,000
Reservoir Rehabilitation	850,000
E.A. Fairbairn Water Treatment Plant Rehabilitation	1,425,594
Utility Billing System Upgrade	0
Sacramento River Water Treatment Plant Rehabilitation	610,969

Note: The difference between the maximum budget set out above (\$119,820,563) and the maximum principal amount the City Council has authorized for the bonds (\$130,000,000) represents costs of issuance plus a contingency amount against the possibility that interest rates (yields) might rise between the date of this resolution and the date the bonds are priced, thereby requiring an original issue discount rather than an original issue premium.

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2017

NEW ISSUE-BOOK-ENTRY ONLY

RATINGS: See “Ratings” Herein

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 2017 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 2017 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 amount, accrual or receipt of interest on, the Series 2017 Bonds. See “Tax Matters” herein.

\$ _____ *

**CITY OF SACRAMENTO
WATER REVENUE BONDS, SERIES 2017**

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The City of Sacramento Water Revenue Bonds, Series 2017 (the “**Series 2017 Bonds**”) are being issued by the City of Sacramento (the “**City**”) to (i) finance the costs of certain improvements to its Water System (the “**Series 2017 Project**”) and (ii) pay costs of issuance of the Series 2017 Bonds.

The Series 2017 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 2017 Bonds will not receive physical certificates representing the Series 2017 Bonds purchased but will receive a credit balance on the books of the nominees of such purchasers. The Series 2017 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Interest on the Series 2017 Bonds will be payable semiannually on March 1 and September 1, commencing September 1, 2017. Payments of interest on and principal of the Series 2017 Bonds will be made 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 2017 Bonds. See APPENDIX F - “**BOOK-ENTRY ONLY SYSTEM.**”

The Series 2017 Bonds are subject to optional and mandatory redemption prior to their respective stated maturities, as described herein. See “THE SERIES 2017 BONDS – Redemption Provisions” herein.

The Series 2017 Bonds are being issued pursuant to an Indenture, dated as of March 1, 2013, as supplemented by the Second Supplemental Indenture, dated as of February 1, 2017 (as supplemented, the “**Indenture**”), between the City and U.S. Bank National Association, as trustee (the “**Trustee**”). The Series 2017 Bonds are limited obligations of the City, secured by a pledge of and payable solely from the Trust Estate, which primarily consists of (i) all System Net Revenues; (ii) 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 (iii) 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 Water System excluding certain moneys as described herein.

* Preliminary, subject to change.

The Series 2017 Bonds are payable from System Net Revenues on a parity with (i) the City of Sacramento Water Revenue Bonds, Series 2013, currently outstanding in the amount of \$204,230,000 and (ii) a Funding Agreement with the State of California Department of Public Health (“**CDPH**”) currently outstanding in the amount of approximately \$8.4 million. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Obligations.” Pursuant to the Indenture, the City may issue additional bonds (together with the Series 2013 Bonds and the Series 2017 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 Series 2017 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 and the Series 2017 Bonds, other Bonds and Parity Obligations, subject to the terms of the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The Series 2017 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 2017 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 2017 Bonds or their interest. The Series 2017 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” herein for a description of certain risks associated with an investment in the Series 2017 Bonds.

The Series 2017 Bonds will be offered when, as and if issued and received by the Underwriters, 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 Underwriters by their counsel, Nixon Peabody 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 2017 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about _____, 2017.

BofA Merrill Lynch

Siebert Cisneros Shank & Co, LLC

Dated _____, 2017

\$ _____ *

CITY OF SACRAMENTO
WATER REVENUE BONDS, SERIES 2017

MATURITY SCHEDULE*

BASE CUSIP NO. †: 786089

\$ _____ * **Serial Bonds**

<u>Maturity (September 1)</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP†</u>
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\$ _____ * **Term Bonds**

\$ _____ * _____ % **Term Bonds due September 1, 20__ @ _____ %; CUSIP†: _____**
\$ _____ * _____ % **Term Bonds due September 1, 20__ @ _____ %; 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 S&P Global Market Intelligence 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 Underwriters and are included solely for the convenience of the registered owners of the Series 2017 Bonds. Neither the City nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2017 Bonds or as included herein. The CUSIP number for a specific maturity is subject to change after the issuance of the Series 2017 Bonds as a result of various subsequent actions.

CITY OF SACRAMENTO, CALIFORNIA

Darrel Steinberg
Mayor

CITY COUNCIL MEMBERS

Angelique Ashby
District 1

Jay Schenirer
District 5

Allen Wayne Warren
District 2

Eric Guerra
District 6

Jeff Harris
District 3

Rick Jennings, II
District 7

Steve Hansen
District 4

Larry Carr
District 8

CHIEF CITY ADMINISTRATIVE PERSONNEL

Howard Chan
Interim City Manager

John P. Colville Jr.
Interim City Treasurer

James Sanchez
City Attorney

Leyne Milstein
Finance Director

Shirley Concolino
City Clerk

Brian Wong
Debt Manager

Bill Busath
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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 shall there be any sale of the Series 2017 Bonds 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 2017 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 and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in 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 Marketplace (EMMA) website.

In connection with this offering, the Underwriters may overallocate or effect transactions which may stabilize or maintain the market price of the Series 2017 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 its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

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

The Series 2017 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.

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OFFICIAL STATEMENT

\$ _____ *

CITY OF SACRAMENTO WATER REVENUE BONDS, SERIES 2017

INTRODUCTION

This introduction contains only a brief summary of certain terms of the Series 2017 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 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 C—“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 Water Revenue Bonds, Series 2017 in the aggregate principal amount of \$ _____* (the “**Series 2017 Bonds**”) pursuant to an Indenture, dated as of March 1, 2013, as supplemented by the Second Supplemental Indenture, dated as of February 1, 2017 (as supplemented, the “**Indenture**”), between the City of Sacramento (the “**City**”) and U.S. Bank National Association, as trustee (the “**Trustee**”). The Series 2017 Bonds are being issued by the City to (i) finance the costs of certain improvements (the “**Series 2017 Project**”) to its municipal water system (the “**Water System**”); and (ii) pay costs of issuance of the Series 2017 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE SERIES 2017 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, approximately 75 air miles northeast of San Francisco. As of May 1, 2016, the City had an estimated population of 485,683. See APPENDIX B — “GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF SACRAMENTO.”

The Water System

The Water System is owned and operated by the City under the administration of the City Department of Utilities (the “**Department**”). The operations of the Water System are accounted for in an enterprise fund established and maintained by the City on its books (the “**Water Fund**”). The Water System provides water to a service area consisting of the City, four outside wholesale customers and one customer to which it provides water conveyance services, and it includes water treatment facilities, pumps and pipes to deliver treated water to customers. All System Revenues are accounted for in the Water Fund. See “THE WATER SYSTEM.”

* Preliminary; subject to change.

Security and Sources of Payment for the Bonds

The Series 2017 Bonds are limited obligations of the City, secured by a pledge of and payable solely from the Trust Estate, which primarily consists of (i) all System Net Revenues; and (ii) 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 Water System excluding certain moneys as described herein.

The Series 2017 Bonds are payable from System Net Revenues on a parity with the City of Sacramento Water Revenue Bonds, Series 2013, currently outstanding in the amount of \$204,230,000. Pursuant to the Indenture, the City may issue additional bonds (together with the Series 2013 Bonds and the Series 2017 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 Series 2017 Bonds and 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, the Series 2017 Bonds, other Bonds and Parity Obligations, subject to the terms of the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.” The Department plans to issue additional \$_____ of Parity Obligations to finance additional improvements to the Water System in Fiscal Year 2017-18. See “THE WATER 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 2017 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 2017 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 2017 Bonds or their interest. The Series 2017 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 Water 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. 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.”

Outstanding Obligations

In order to fund certain improvements to the Water System, the City has previously (i) issued the Series 2013 Bonds and (ii) entered into a Funding Agreement with the State of California Department of Public Health (“**CDPH**”), dated September 8, 2009 (the “**State Funding Agreement**”), which constitutes a Parity Obligation. The Series 2013 Bonds and the City’s obligations with respect to the State Funding Agreement constitute Parity Obligations pursuant to the Indenture. The outstanding principal amount of the Series 2013 Bonds is \$204,230,000, and the outstanding principal amount owed by the City pursuant to the State Funding Agreement is approximately \$8.4 million as of January 1, 2017. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Outstanding Parity Obligation.”

In addition, the City has previously funded certain improvements to the Water System by the issuance of bonds by the Sacramento City Financing Authority (“**SCFA**”) through the City’s Master Lease Program (as defined herein). Approximately \$123 million of Master Lease Bonds (as defined herein) relating to Water System improvements are currently outstanding and payable from any legally available funds of the City. In connection with the Master Lease Program, the City has leased certain components of the Water System to the SCFA and the SCFA has subleased those components of the Water System back to the City. Pursuant to the Indenture, the City has covenanted that it will not use System Net Revenues to pay, or reimburse the City’s General Fund for the payment of, any existing or future General Fund lease obligation of the City unless 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 or unless such payment or reimbursement has been secured as a Parity Obligation, Subordinate Obligation or Fee and Expense Obligation after compliance with the conditions of the Indenture. See “THE WATER SYSTEM - Leasing of Certain Components of the Water System.”

Pursuant to the Indenture, the City also has covenanted that it will not encumber any components of the Water System under a City General Fund lease except for the components of the Water System that were, 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 Water System that were, 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, encumbered components of the Water System.

No Bond Reserve Fund With Respect to 2017 Bonds

No bond reserve fund is being established with respect to the 2017 Bonds. The 2017 Bonds are not secured by the Bond Reserve Fund established with respect to the 2013 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Bond Reserve Fund.”

Rate Stabilization Fund

Pursuant to the Indenture, the City has established and maintains a Rate Stabilization Fund. On the date of issuance of the Series 2017 Bonds, approximately \$6.8 million is on deposit in the Rate Stabilization Fund. Upon compliance with the terms of the Indenture, from time to time the City may allocate to the Rate Stabilization Fund from current System Revenues such amounts as the City shall 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 Water 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 Water Fund and accounted for as System Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Stabilization Fund.”

The Series 2017 Project

The Series 2017 Project consists of rehabilitation of significant components of the City’s water treatment plants, acquisition and installation of water meters, replacement of aging pipelines, rehabilitation of groundwater wells, and other miscellaneous projects. See “THE SERIES 2017 PROJECT.”

Continuing Disclosure

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2017 Bonds to provide certain financial information and operating data relating to the Water 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 2016-17, 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 Electronic Municipal Market Access system (“**EMMA**”). The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX D—“FORM OF CONTINUING DISCLOSURE CERTIFICATE” hereto. This covenant has been made in order to assist the Underwriters 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.

Certain Risk Factors

See “CERTAIN RISK FACTORS” for a description of certain risks associated with an investment in the Series 2017 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 2017 Bonds are as follows:

Sources:

Principal Amount
Original Issue Premium/Discount
Total Sources

Uses:

Project Fund
Costs of Issuance⁽¹⁾
Total Uses

⁽¹⁾ Includes fees of Bond Counsel, Disclosure Counsel, the Municipal Advisor and the Trustee, Underwriters' Discount, rating agency fees, printing costs and certain miscellaneous expenses.

PLAN OF FINANCE

As described herein, the proceeds of the Series 2017 Bonds will be used primarily for the purpose of providing funds to finance or reimburse the City for costs relating to the Series 2017 Project. See "THE SERIES 2017 PROJECT" herein.

THE SERIES 2017 BONDS

General

The Series 2017 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, 2017 (each, an "**Interest Payment Date**"). Interest on the Series 2017 Bonds will be computed on the basis of a 360-day year, composed of twelve 30-day months.

The Series 2017 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 2017 Bonds. Individual purchases will be made in book-entry form. Purchasers will not receive a bond certificate representing their beneficial ownership interest in Series 2017 Bonds. So long as Cede & Co. is the registered owner of the Series 2017 Bonds, as nominee of DTC, references herein to Bondholders, Holders or Owners of the Series 2017 Bonds shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners of Series 2017 Bonds.

So long as Cede & Co. is the registered owner of the Series 2017 Bonds, principal of and interest on the Series 2017 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 2017 Bonds. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM” herein.

In the event the use of the book-entry system is discontinued, principal of the Series 2017 Bonds will be payable upon surrender thereof at the designated office of the Trustee. All interest payable on the Series 2017 Bonds will be paid by check mailed by first-class mail on each Interest Payment Date to the person in whose name each Series 2017 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 2017 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 2017 Bonds maturing on and after September 1, 20__ are subject to redemption prior to 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 2017 Bonds maturing on September 1, 20__, are also subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2017 Bonds on each September 1 on and after September 1, 20__, at a redemption price equal to the principal amount of the Series 2017 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 2017 Bonds on the dates set forth below (except that if any such Series 2017 Bonds are optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Account Payments for such Series 2017 Bonds will be revised as directed by the City):

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
<hr/>	<hr/>

* Final Maturity

The Series 2017 Bonds maturing on September 1, 20__, are also subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2017 Bonds on each September 1 on and after September 1, 20__, at a redemption price equal to the principal amount of

the Series 2017 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 2017 Bonds on the dates set forth below (except that if any such Series 2017 Bonds are optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Account Payments for such Series 2017 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 2017 Bonds for Redemption. While the Series 2017 Bonds are in book-entry form and so long as DTC acts as Depository for the Series 2017 Bonds, whenever provision is made for redemption of less than all of the Series 2017 Bonds of any maturity, applicable provisions for selection of Series 2017 Bonds to be redeemed under DTC’s book-entry system shall apply. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM” herein. In the event that the use of the book-entry system is discontinued, whenever provision is made for redemption of less than all of the Series 2017 Bonds of any maturity, the Trustee shall select the Series 2017 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 2017 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 shall affect the sufficiency or validity of the proceedings for the redemption of any of the Series 2017 Bonds.

With respect to any notice of optional redemption of Series 2017 Bonds, unless, upon the giving of such notice, such Series 2017 Bonds shall be deemed to have been paid within the meaning of the provisions of the Indenture, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, premium, if any, and interest on, such Series 2017 Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the City shall not be required to redeem such Series 2017 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 said notice shall be of no force and effect and the City shall not be required to redeem such Series 2017 Bonds. In the event that such notice of optional redemption contains such a condition and such amounts are not so received or such event does not occur, 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.

Any notice of optional redemption given pursuant to the provisions of the Indenture described herein may be rescinded by notice given to the Trustee by the City no later than five Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same parties, as notice of such redemption was given.

For so long as the Series 2017 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 F – “BOOK-ENTRY ONLY SYSTEM” herein.

Cessation of Interest. Interest on all Series 2017 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 2017 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 2017 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 Bond and the Series 2017 Bonds, are limited obligations of the City secured by a pledge of and payable solely from the Trust Estate, which consists of (i) all System Net Revenues; (ii) 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; (iii) 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; (iv) all Swap Revenues; (v) all Subsidy Payments; and (vi) 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 Water System, determined in accordance with generally accepted accounting principles, consistently applied, including, without limiting the generality of the foregoing, (i) all income, rents, rates, fees, connection fees, water system development fees, charges, standby charges, capacity charges or other moneys derived by the City from the water 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 Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law; (ii) any amount received from the levy or collection of taxes which are

solely available and are earmarked for the support of the operation of the Water System; (iii) allocations from the Rate Stabilization Fund to the Water Fund; and (iv) 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 not include in all cases, (1) customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City and (2) any proceeds of the voter-approved general tax imposed on the gross revenues of the Water 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 Water 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 Water 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 Water System, 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 (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Water System that under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation and (iv) 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 2017 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 2017 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 2017 Bonds or their interest. The Series 2017 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.

Water 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 Water Fund, which the City covenants and agrees to maintain on the City's books, and all money accounted for within the Water Fund shall be applied and used only as provided in the Indenture, and the Water 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 Water Fund to the Rate Stabilization Fund or allocate amounts accounted for in the Rate Stabilization Fund to the Water Fund. From amounts accounted for within the Water 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 Water 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 said 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 said 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 there are Liquidity Facility Bonds 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 there are any Liquidity Facility Bonds 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.

The City plans to continue to pay debt service on approximately \$123 million principal amount of currently outstanding Master Lease Bonds from System Net Revenues. Pursuant to the Indenture, the City has covenanted that it will not use System Net Revenues to pay, or reimburse the City's General Fund for the payment of, any existing or future General Fund lease obligation of the City unless 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 or unless such payment or reimbursement has been secured as a Parity Obligation, Subordinate Obligation or Fee and Expense Obligation after compliance with the conditions of the Indenture. See "- Other Outstanding Obligations."

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 Water 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. See APPENDIX C—“SUMMARY OF THE INDENTURE.”

No Bond Reserve Fund With Respect to 2017 Bonds

The Indenture provides that, in connection with the issuance of particular Series of Bonds, the City may provide for the establishment of a Reserve Fund with respect thereto. See APPENDIX C—“SUMMARY OF THE INDENTURE.” The City is not establishing a Reserve Fund with respect to the Series 2017 Bonds. The 2017 Bonds are not secured by the Reserve Fund established in connection with the issuance of the 2013 Bonds.

Outstanding Parity Obligation

In order to fund certain improvements to the Water System, the City has previously issued the Series 2013 Bonds, which are currently outstanding in the principal amount of \$204,230,000.

In addition, in order to fund certain improvements to the Water System, the City has previously entered into the State Funding Agreement with CDPH. The City’s obligations with respect to the State Funding Agreement constitute a Parity Obligation pursuant to the Indenture. The current outstanding principal amount owed by the City pursuant to the State Funding Agreement is approximately \$8.4 million. The State Funding Agreement provides that all payments thereunder may be immediately due and payable in the event of material breach by the City (and failure to cure). See “CERTAIN RISK FACTORS – Potential Acceleration of Parity Obligations and Liquidity Facility Bonds; No Acceleration of Bonds.”

The payment schedule with respect to the Series 2013 Bonds and the State Funding Agreement is set forth below in “PAYMENT SCHEDULE.”

The State Funding Agreement requires the City to fund a reserve fund for the benefit of CDPH. Amounts in the reserve fund established pursuant to the State Funding Agreement are not available for the payment of any Bonds (including the Series 2013 Bonds and the Series 2017 Bonds) or other Parity Obligations.

The Projected Operating Results for the Water System include the issuance of approximately \$_____ million of additional Bonds in fiscal year 2017-18. See “THE WATER SYSTEM - Projected Operating Results.”

Other Outstanding Obligations

In addition to the State Funding Agreement, the City has previously funded certain improvements to the Water System by the issuance of bonds by the SCFA through the City’s Master Lease Program. Approximately \$123 million of Master Lease Bonds relating to Water System improvements are currently outstanding. In connection with the Master Lease Program, the City has leased certain components of the Water System to the SCFA and the SCFA has subleased those components of the Water System back to the City. Pursuant to the Indenture, the City has covenanted that it will not use System Net Revenues to pay, or reimburse the City’s General Fund for the payment of, any existing or future General Fund lease obligation of the City unless 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 or unless such payment or reimbursement has been secured as a Parity Obligation, Subordinate Obligation or Fee and Expense Obligation after compliance with the conditions of the Indenture.

Pursuant to the Indenture, the City also has covenanted that it will not encumber any components of the Water System under a City General Fund lease except for the components of the Water System that were, 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 Water System that were, 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, encumbered components of the Water System.

See “THE WATER SYSTEM - Leasing of Certain Components of the Water System.”

Additional Bonds, Parity Obligations and Subordinate Obligations

Additional Bonds. Subsequent to the issuance of the Series 2017 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 and Series 2017 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, 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 Water 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 Water 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 Water 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 Water System anticipated to be served by any additions or improvements to or extensions of the Water 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 extensions of the Water 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 Water 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 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 and the Series 2017 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 Rate Swap Agreements where 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, the Series 2017 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 C – “SUMMARY OF THE INDENTURE.”

Rate Stabilization Fund

Pursuant to the Indenture, the City has established and maintained on the City’s books a fund known as the “**Rate Stabilization Fund.**” On the date of issuance of the Series 2017 Bonds, approximately \$6.8 million is on deposit in 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 shall 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 Water 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 Water 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 Water System for water 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 State Funding Agreement, the Series 2013 Bonds and the Series 2017 Bonds is set forth below. The following table does not include amounts which respect to the Master Lease Bonds which the City expects to pay from System Net Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Obligations” and “THE WATER SYSTEM - Leasing of Certain Components of the Water System.”

Fiscal Year Ending June 30	State Funding Agreement		Series 2013 Bonds		Series 2017 Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2017	\$426,316.56	\$212,212.76	\$3,780,000.00	\$10,236,000.00			
2018	437,048.42	201,480.90	3,960,000.00	10,057,500.00			
2019	448,050.45	190,478.87	4,150,000.00	9,864,750.00			
2020	459,329.43	179,199.89	4,360,000.00	9,657,000.00			
2021	470,892.34	167,636.98	4,580,000.00	9,433,500.00			
2022	482,746.33	155,782.99	4,815,000.00	9,198,625.00			
2023	494,898.73	143,630.59	5,065,000.00	8,951,625.00			
2024	507,357.04	131,172.28	5,315,000.00	8,700,125.00			
2025	520,128.98	118,400.34	5,580,000.00	8,435,750.00			
2026	533,222.42	105,306.90	5,865,000.00	8,149,625.00			
2027	546,645.48	91,883.84	6,155,000.00	7,861,125.00			
2028	560,406.44	78,122.88	6,460,000.00	7,557,750.00			
2029	574,513.80	64,015.52	6,790,000.00	7,226,500.00			
2030	588,976.31	49,553.01	7,135,000.00	6,878,375.00			
2031	603,802.88	34,726.44	7,505,000.00	6,512,375.00			
2032	619,002.69	19,526.63	7,890,000.00	6,127,500.00			
2033	315,320.49	3,944.19	8,290,000.00	5,723,000.00			
2034			8,720,000.00	5,297,750.00			
2035			9,165,000.00	4,850,625.00			
2036			9,635,000.00	4,380,625.00			
2037			10,130,000.00	3,886,500.00			
2038			10,650,000.00	3,367,000.00			
2039			11,195,000.00	2,820,875.00			
2040			11,770,000.00	2,246,750.00			
2041			12,370,000.00	1,643,250.00			
2042			13,005,000.00	1,008,875.00			
2043			13,675,000.00	341,875.00			
Totals	\$8,588,658.79	\$1,947,075.01	\$208,010,000.00	\$170,415,250.00			

THE WATER SYSTEM

General

The City is located at the confluence of the Sacramento and American Rivers in the northern part of California's 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 City 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 May 1, 2016, the City had an estimated population of 485,683.

Service Area

The Water System began providing service in the City in approximately 1854. Today, the City's retail water service area covers approximately 63,182 acres within a boundary that is largely contiguous with the City limits. The Sacramento Suburban Water District ("SSWD") serves a small portion of City residents and businesses on the eastern side of the City, and the Water System serves a number of customers in the unincorporated portion of the County of Sacramento (the "County") adjacent to the service area of the Fruitridge Vista Water Company. The population within both of these areas is roughly equivalent.

The City wholesales water to the California American Water Company ("Cal Am"), Fruitridge Vista Water Company, and the SSWD, wholesales/wheels water to the Sacramento County Water Agency (for service to Sacramento International Airport and Metro Air Park), and wheels water to the Sacramento County Water Agency (for South Sacramento Zone 40 service area).

Management

The Water System is administered by the Department, which also administers the City's wastewater treatment and conveyance system (the "Wastewater System") and the storm drainage system. The Water System and the Wastewater System are financially independent from each other. The following are biographies of key Department personnel with responsibility for management of the Water System:

Bill Busath, Director – Mr. Busath has over 19 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 also served as the Engineering Services Manager from 2011 to 2014 until his appointment as Director of Utilities in 2014. He holds a Bachelor's of Science in Civil Engineering and a Master's of Science in Engineering Management from California State University, Sacramento, and has been a licensed Professional Engineer for 21 years.

Dan Sherry, Engineering Services Division Manager – Mr. Sherry has over 20 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 Water Capital Improvement Program. Mr. Sherry has been the Manager of the Engineering Services Division for almost two years. He holds a Bachelor’s of Science in Civil Engineering from California State University, Sacramento, holds a State of California Treatment Certification III from the California Division of Drinking Water of the State Water Resources Control Board and has been a licensed Professional Engineer for 22 years.

Michael Malone, Operations and Maintenance Manager – Mr. Malone has over 25 years of experience in underground utility management. He has served in several capacities with the Department and the San Jose Water Company including Operations Supervisor, Maintenance Supervisor and Senior Maintenance Supervisor. Mr. Malone has been in the position of Water Distribution Superintendent, Field Services Manager from 2008 to 2013. Mr. Malone currently serves as Manager of the Department’s Operations and Maintenance Division a position he has held since 2013. 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 the local American Public Works Association chapter.

Susan Goodison, Business Services Manager – Ms. Goodison has over 23 years of experience in municipal finance, accounting and administration, working in the housing, pension and utilities sectors at the State and local government level. Ms. Goodison joined the Department in 2012 and has been the Business Services Manager since February 2015. Ms. Goodison oversees the finance, billing, customer service, and employee and administrative services operations for the Department. She holds a Bachelor’s of Science in Agricultural Economics from Cornell University. Ms. Goodison is a member of the California Society of Municipal Finance Officers Association, and serves on the Finance Committee for the Association of California Water Agencies.

Employees

During Fiscal Year 2016-2017, the City has assigned 526 employees to the Department, many of whom perform work for more than one of the City’s utilities. Employee costs of the Department are allocated by the City among the various utilities. For Fiscal Year 2015-2016, the Water System was allocated approximately 44% of Department employee costs. Employees assigned to the Water System 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)	20	June 23, 2017
UA Local 447 Plumbers & Pipefitters Local Union	176	June 23, 2017
Stationary Engineers Local 39	192	June 23, 2017
Sac Sierra Building and Construction Trades, rep unit 6	54	June 25, 2017
Sacramento City Exempt Employees Association (SCXEA)	83	June 22, 2018
Non-Represented	1	

Water System Facilities

The Water System includes two water treatment facilities, groundwater wells, storage facilities, pumping facilities, and distribution/transmission pipelines. The City maintains 6 wholesale connections to other adjacent agencies and 21 additional emergency interties.

Water Treatment Plants. The City treats surface water diverted from the Sacramento and American Rivers through the Sacramento River Water Treatment Plant (“**SRWTP**”) and the E.A. Fairbairn Water Treatment Plant (“**FWTP**”), respectively.

Sacramento River Water Treatment Plant. The SRWTP began operation in 1924 with an initial capacity of 32 million gallons per day (“**MGD**”), and treats water diverted approximately one-half mile downstream of the American River confluence with the Sacramento River. A new intake structure was completed in 2004. Other expansions and modifications completed by the City since the 1920’s, and most recently in 2016 have increased the SRWTP’s current design capacity to 160 MGD.

As of the date of this Official Statement, the SRWTP’s design treatment of 160 MGD capacity is limited to approximately 140 MGD pending an approval by the State for filter ratings of 160 MGD for the new improvements, which the City expects will occur in 2017. The City has previously tested and achieved the design ratings on identical filters at the SRWTP, and does not anticipate any difficulty with the procedural rating process. The current period where the existing filter can be used to peak capacity is limited from May 15th to September 30th. This date expected to maintain and include the warmer summer months when peak treatment capacity is needed. The SRWTP currently has four treatment trains; all four treatment trains are recombined after filtration before post-chlorination, and eventual discharge from a high service pump station to the distribution system. Rehabilitation and replacement work on the sedimentation basins, high service pump station, filters, solids dewatering facilities, and electrical switchgear at the SRWTP, was completed in the end of 2016, restoring the capacity of the SRWTP from 135 MGD to 160 MGD (assuming the State approval described above).

As describe herein in “- Drought,” the capacity of SRWTP actually available may be adversely affected by drought conditions.

Fairbairn Water Treatment Plant. The FWTP is located on the American River approximately seven miles upstream of the confluence of the American and Sacramento Rivers. The FWTP began operation in 1964 and has a current design capacity of 200 MGD following an expansion completed in late 2005. As of the date of this Official Statement, the State Water Resources Control Board Division of Drinking Water (“**DDW**”) has permitted the FWTP with a capacity of 160 MGD. The amount of water allowed to be diverted for treatment at FWTP is further limited by the Hodge Flow Criteria described below. Generally, during the time of peak demand, most often in June, July, or August, the Hodge Flow Criteria could limit the diversion rate at the FWTP to 100 MGD. (See “--Water Rights and Resources – Hodge Flow Criteria.”)

Groundwater Wells. The City currently has 33 municipal groundwater supply wells, 31 of which are located in the northern portion of the City, north of the American River, with the remaining 2 located south of the American River, with a total groundwater production capacity of approximately 20 MGD. Two additional wells are currently under construction, one of which is expected to be completed in 2017. Of the 33 wells, 6 are currently offline for water quality concerns. Those wells offline due to performance issues are undergoing a condition assessment to determine whether they

will be reopened in the future. See “--Environmental Compliance” and “—Water Rights and Resources”)

Storage Facilities. The City currently has 16 water storage facilities: 11 distributed storage tanks are located throughout the City, and five clearwells are located at the water treatment plants (three at the SRWTP and two at the FWTP). Ten of the storage tanks located throughout the City’s distribution system have a capacity of 3 million gallons each, while one storage tank (Florin Reservoir) has a capacity of 15 million gallons, for a cumulative distribution system storage capacity of 45 million gallons. The combined plant clearwells have a nominal capacity of approximately 45 million gallons and a usable capacity of 32 million gallons.

Pumping Facilities. The City currently operates high lift pump stations at both the SRWTP and the FWTP. The City also has an additional 10 pump stations, located at storage tanks within the distribution system.

Transmission and Distribution Mains. The City maintains approximately 1,440 miles of distribution system mains (less than 12 inches in diameter) and approximately 158 miles of transmission mains (greater than 12 inches in diameter). The City’s oldest transmission and distribution mains date back to the early 1900’s. The City’s transmission and distribution mains range from less than 10 years to over 100 years old (about 40 percent are less than 40 years old, 35 percent are between 40 and 50 years old, and about 25 percent are more than 50 years old). As a result of this aging infrastructure, the Water System experiences significant pipe breaks from time to time. The majority of pipeline failures occur on the older pipelines and the frequency of failures is increasing. The City monitors the condition of the transmission and distribution system and rehabilitates or repairs pipes regularly.

System Production Capacity. The table below shows the Water System’s existing and future sustainable capacity to be considered for meeting existing and future water demand. Sustainable capacity is the treatment capacity that can be provided 24 hours per day 365 days per year while meeting all water quality goals.

Table 1
Water System Sustainable Capacity

Facility	Sustainable Capacity (MGD)	
	Existing	Future ⁽¹⁾
SRWTP	140	160
FWTP ⁽²⁾	100	100
Groundwater Wells	<u>20</u>	<u>20</u>
TOTAL	260	280

Notes:

- (1) The increase from 140 MGD to 160 MGD is pending an approval by the State for filter ratings of 160 MGD for the SRWTP, which the Department anticipates will occur in early 2017. It is expected that the May 15th to September 30th will continue to be the permitted period for peak treatment capacity.
- (2) While the permitted capacity is 160 MGD, the City’s Water Forum diversion restrictions limit FWTP diversions to 100 MGD during the peak demand period of June through August, if lower American River flows fall below the Hodge Flow Criteria.

Source: The City

Recent System Production. The City experienced a steady increase in water demands from the early 1990’s to its peak in 2007. Between 2007 and 2011, the City’s average water demand dropped from 134 MGD to approximately 103 MGD. The City believes that this decline can be attributed to the economic recession which began in 2008, resulting in vacant properties and a reduction in wholesale water deliveries. Coinciding with a regional economic recovery, water demands increased between 2011 and 2013. Since 2014 water demand decreased again, as the City responded to a significant statewide drought, which has required reduced water usage by customers to meet State mandated emergency water conservation goals. See “—Drought.” The Projected Operating Results assume modest increases in demand. See “—Projected Operating Results.”

The following two tables show the annual and average total water production from the Water System’s three supply sources. Table 2 also identifies the allocation of the total water production (in millions of gallons or “MG”) between retail and wholesale customers.

**Table 2
Water Production by Source**

Fiscal Year	Fairbairn Water Treatment Plant (MG)	Sacramento River Water Treatment Plant (MG)	Groundwater Wells (MG)⁽¹⁾	Total Production (MG)	Water Production to Retail (MG)	Water Production to Wholesale (MG)
2011-12	14,523	19,028	5,675	39,225	37,266	1,959
2012-13	15,319	20,810	4,051	40,179	37,760	2,419
2013-14	14,045	17,017	4,638	35,700	35,549	151
2014-15	10,916	13,514	5,242	29,671	29,421	250
2015-16	9,226	14,502	3,957	27,684	27,378	306
Average	12,805	16,974	4,712	34,491	33,475	1,017

⁽¹⁾ Total groundwater production includes 80 MG purchased from an adjacent water agency in Fiscal Year 203-14 and 250 MG purchased in Fiscal Year 2014-15. The water was purchased to blend with City supply in order to remediate a localized water quality condition in compliance with State authorization for a period of 90 days.

Source: The City

**Table 3
Average Water Production⁽¹⁾**

Water Source	Average Annual Production (MG)	Average %	Average Daily Production Rate Over Calendar Year (MG)	Average Daily Maximum Month Production Rate (MGD)
Sacramento River Water Treatment Plant	16,974	49	47	75
Fairbairn Water Treatment Plant	12,805	37	35	54
Groundwater Wells ⁽¹⁾	4,712	14	13	14
TOTAL	34,491	100	95	143

⁽¹⁾ For the period of Fiscal Year 2011-12 to Fiscal Year 2015-16.

⁽²⁾ Total groundwater production includes 80 MG purchased from an adjacent water agency in Fiscal Year 2013-14 and 250 MG purchased in Fiscal Year 2014-15. The water was purchased to help manage localized water quality conditions.

Source: The City

Water Rights and Resources

In addition to the groundwater wells described above, the City possesses significant surface water rights, including five appropriative water rights permits issued by the State Water Resources Control Board (“**SWRCB**”) and pre-1914 rights (as described below and in Table 4). Diversions under the City’s water right permits are subject to the provisions of a water rights settlement contract with the U.S. Bureau of Reclamation (“**BuRec**”). There also are some conditions whereby the City’s diversion rights are limited by the “Hodge Flow Criteria” as described below. With the recent improvements to the SRWTP and FTWP, and planned water conservation to meet California Senate Bill X7-7 (Water Conservation Act of 2009) that called for a 20% savings from a previous baseline, the City projects that it will have sufficient water entitlements and water production infrastructure to accommodate new demands through the year 2030. The State of California is currently considering new, and potentially more stringent long term conservation programs, and the City is tracking and providing input to this endeavor. The likely impact of more stringent long term conservation programs on the City’s water infrastructure would be to extend any future date where demands would exceed capacity. Depending on growth in demand and any new statewide mandates for water usage, new water production infrastructure may be needed, which could require the issuance of additional Bonds or other Parity Obligations.

Surface water is currently diverted at two locations: from the American River downstream from the Howe Avenue Bridge, and from the Sacramento River downstream of the confluence of the American and Sacramento Rivers. The City’s current authorized Place of Use (“**POU**”) for water diverted under the Sacramento River permit includes all the land within the City limits, while the POU for water diverted under the American River permits includes land within the City limits and adjacent portions of the service areas of several other water purveyors.

The following table summarizes the City’s water rights permits (note that the City’s rights as described below are limited in certain circumstances by the BuRec Settlement and the Hodge Flow Criteria). Each of the permits requires the City to perfect full use by the year 2030, which is the time by which the City must demonstrate its maximum water usage of surface water diverted. If the City anticipates additional future demands as 2030 draws near, there are procedures for requesting an extension, which would require consideration and approval by the SWRCB in accordance with applicable statutory and regulatory requirements.

Table 4
City State Water Right Permits Summary
City of Sacramento

Permit No.	Priority Date ⁽¹⁾	River Source	Maximum Rate and Amount		Place of Use
			Specified		
992	March 30, 1920	Sacramento	225 CFS*	26,655 MG	City of Sacramento
11358	October 29, 1947	American	675 ⁽²⁾ CFS	79,833 ⁽²⁾ MG	79,500 acres within and adjacent to the City
11359	February 13, 1948	Tributaries of American			96,000 acres within and adjacent to the City
11360	July 29, 1948	Tributaries of American			96,000 acres within and adjacent to the City
11361	September 22, 1954	American			79,500 acres within and adjacent to the City

(1) The “**Priority Dates**” shown above are the dates that each water right application was filed. Since 1914, a party seeking surface water rights in the State has been required to apply to the State for a permit. Under permits issued by the State since 1914, when there is not adequate water available to satisfy all permittees’ uses, water use is governed by a priority doctrine where permits with earlier application dates (i.e., “**senior rights**”) take precedence over permits with later application dates (i.e., “**junior rights**”). Water rights obtained by water use before the permit system was instituted in 1914 are referred to as “pre-1914” rights, and during times of water shortage pre-1914 water rights take precedence over water right permits issued after 1914.

(2) Aggregate maximum applicable to the City’s diversions under all four American River permits pursuant to the 1957 settlement contract between the City and BuRec.

* CFS = Cubic feet per second.

Source: The City

Bureau of Reclamation Settlement Contract. The City’s ability to use its entitlements for the Sacramento and American Rivers is subject to the provisions of an “Operating Contract Relating to Folsom and Nimbus Dams and Their Related Works and to Diversions of Water by the City of Sacramento,” Contract No. 14-06-200-6497 entered into in 1957 by the City and the BuRec (the “**BuRec Settlement**”). Under the BuRec Settlement, the City agreed to limit its combined diversion under its American River water right permits to a maximum rate of 675 CFS, and a maximum amount that may scale up to 79,833 MG a year by the year 2030. The City also agreed to limit diversion under its Sacramento River water right permit to a maximum rate of 225 CFS and a maximum amount of 26,655 MG. This limits the City’s total diversions of Sacramento and American River water under its water right permits to 106,488 MG in the year 2030 and in succeeding years. In return, the BuRec Settlement requires the BuRec to operate BuRec facilities so as to make available enough water in the rivers to enable the agreed-upon diversions by the City.

Water Forum Agreement. The Water Forum was started in 1993 by a group of water managers, local governments, business leaders, agricultural leaders, environmentalists, and citizen groups with two “co-equal” goals: to provide a reliable and safe water supply through the year 2030, and to preserve the wildlife, fishery, recreational, and aesthetic values of the Lower American River. In 1999, after six years of negotiation, the Water Forum participants approved the 2000 Water Forum Agreement (“**Water Forum Agreement**”).

As part of the Water Forum Agreement, each purveyor signed a purveyor specific agreement (“**PSA**”) that specified that purveyor’s Water Forum commitments. The City’s PSA limits the quantity of water diverted from the American River to the FWTP during two conditions: extremely dry years (i.e., “**Conference Years**”) and periods when river flows are below the “Hodge Flow Criteria” issued by Judge Richard Hodge in the Environmental Defense Fund v. East Bay Municipal Utility District

litigation (“**Hodge Flow Criteria**”). These two conditions, collectively referred to as the “**PSA Limitations**,” are described in more detail below.

Extremely Dry Years (Conference Years). The PSA defines Conference Years as years in which the State Department of Water Resources (“DWR”) projects an annual unimpaired flow into Folsom Reservoir of 550,000 acre feet per year (179,200 million gallons) or less, or the projected March through November unimpaired flow into Folsom Reservoir is less than 400,000 acre feet per year (130,300 million gallons). During extremely dry years, the City has agreed to limit its diversions for water treated at the FWTP to 155 cubic feet per second (100 million gallons per day) and 50,000 acre feet per year (16,300 million gallons). This has happened twice since 1922 (i.e., a frequency of about two years out of every 100 years). Any additional water needs must be met by diversions at other locations and/or other sources.

The City would reduce water consumption in an extremely dry year, if supplies were not available. The City’s 2015 Urban Water Management Plan provides for specific actions to reduce water consumption depending on the severity. For example, the City may forbid washing cars or outdoor irrigation. The Urban Water Management Plan also provides for longer term water conservation efforts.

Hodge Flow Criteria. The Water Forum parties agreed to use the Hodge Flow Criteria as a minimum flow that would preserve and protect the in-stream resources of the Lower American River. The City’s PSA restricts the City from using a portion of the maximum allowable FWTP diversion capacity during periods when these flows are not met.

Under the City’s PSA, the FWTP may divert up to 200 MGD as long as the flow in the American River is greater than the Hodge Flow Criteria. When the flow in the American River is less than the Hodge Flow Criteria, diversion limits apply. The City does not anticipate that the Hodge Flow Criteria will materially adversely impact the City’s ability to meet demand in the Water System.

Groundwater. The City has historically relied on groundwater to satisfy a portion of its demand. The City overlays two subbasins of the Sacramento Valley Groundwater Basin (the North American and South American Subbasins). The City is one of many water purveyors that utilizes groundwater from the subbasins. The City has 31 municipal supply wells (6 of which are currently offline) north of the American River, and 2 municipal supply wells south of the American River. The City pumps groundwater from both subbasins, although approximately 80-90% of the amount pumped by the City is pumped from the North American Subbasin. The City pumped 12,862 acre feet of groundwater from the North American Subbasin and 844 acre feet from the South American Subbasin for potable water consumption in 2015.

In 2014 the State enacted the Sustainable Groundwater Management Act (“**SGMA**”). The legislation provides a framework for sustainable management of groundwater supplies by local authorities. The act requires the formation of local groundwater sustainability agencies (“**GSAs**”) that must assess conditions in their local water basins and adopt locally-based groundwater sustainability plans.

The City is an active member of two local groundwater management agencies: 1) the Sacramento Groundwater Authority whose boundaries include the portion of the City north of the American River, and 2) the Sacramento Central Groundwater Authority, whose boundary includes all portions of the City limits south of the American river. Both agencies are in the process of becoming

GSA's in compliance with SGMA regulations. Given the relatively recent passage of SGMA, and the ongoing release of regulations surrounding the implementation of SGMA, the long term impacts are not fully understood. The initial assessment is that curtailment of the City's current groundwater production capacity is unlikely. Current groundwater extractions and any future goals to expand the City's groundwater resources will need to be considered in conjunction with locally developed groundwater sustainability plans.

California WaterFix

California WaterFix is the water-supply portion of the joint project of the California Department of Water Resources (“**DWR**”) and the U.S. Bureau of Reclamation (“**Reclamation**”) formerly known as the Bay Delta Conservation Plan (“**BDCP**”). The project proposes three new water-diversion intakes on the Sacramento River north of Courtland and two tunnels to convey water to the state and federal pumping facilities in the southern Delta. Those export pumps send water to contractors of the Central Valley Project (“**CVP**”) and the State Water Project (“**SWP**”) who are in the San Joaquin Valley, southern California, the Central Coast, and the southern Bay Area. On August 25, 2015, the DWR and Reclamation jointly submitted a change petition to the State Water Resources Control Board (“**State Board**”) to add points of surface-water diversion and re-diversion to their water-right permits to implement the WaterFix project.

In January 2016, the City filed a protest in the change-petition process. Many other parties throughout the state filed also protests against the change petition. Protests may be filed on several specified grounds, including (1) the proposed change would interfere with prior water rights, and (2) the proposed change would have an adverse environmental impact. The City’s protest was developed in coordination with other water agencies in the Sacramento region (the American River Water Agencies, or “**ARWA**”) and in Northern California (the North State Water Alliance, or “**NSWA**”), and includes the following claims:

- Reasonably foreseeable operational changes resulting from the tunnels project may adversely impact available water supply in this region, thereby causing injury to the City’s prior water rights.
- The WaterFix project will have adverse effects on fish and wildlife not addressed by the project proponents.

The State Board has indicated that the hearing on the petitions will be held in two parts: Part 1 will consider water rights and water supply issues, and Part 2 will consider environmental issues. The State Board has further divided Part 1 into Part 1A (presentation of the petitioners’ hearing testimony and associated cross-examination) and Part 1B (presentation of the protestants’ testimony and associated cross-examination). Part 1A has been concluded, and Part 1B began on October 20, 2016. Part 2 has not yet been scheduled but will take place after the California WaterFix project has complied with CEQA, NEPA, and the state and federal endangered-species acts.

Drought

California hydrology can be highly variable from year to year. 2014 was a historically dry year in the State. 2015 was the fourth consecutive drought year and the eighth of nine years with below average rainfall and snowpack. On January 17, 2014, Governor Jerry Brown declared a statewide drought state of emergency for California, and directed State officials to take all necessary actions to prepare for water shortfalls. On March 17, 2015, the State Water Resources Control Board (the

“**SWRCB**”) adopted expanded emergency water conservation regulations prohibiting certain outdoor irrigation and urban water uses and ordering all urban water suppliers to implement conservation measures and provide monthly data on water production, per capita use, outdoor watering restrictions, enforcement efforts and water conservation programs and services. On April 1, 2015, Governor Jerry Brown issued Executive Order B-29-15 (“Executive Order B-29-15”) to address the ongoing drought conditions in California. Executive Order B-29-15, among other things, directed the SWRCB to impose restrictions to achieve a statewide 25% reduction in potable urban water usage from 2013 levels through February 28, 2016. Executive Order B-29-15 further directed the SWRCB to impose restrictions to require that commercial, industrial and institutional properties, such as campuses, golf courses and cemeteries, immediately implement water efficiency measures to reduce potable water usage, and called upon the SWRCB to direct urban water suppliers to develop rate structures and other pricing mechanisms, including but not limited to surcharges, fees and penalties, to maximize water conservation consistent with statewide water restrictions. Executive Order B-29-15 included several provisions to increase enforcement activity against water waste and to streamline the State and local response to drought-related initiatives.

On May 5, 2015, following a formal rulemaking process and public comment period, the SWRCB adopted an emergency regulation requiring a 25% reduction in overall potable urban water production statewide in accordance with Executive Order B-29-15. The regulation became effective on May 18, 2015, and initially was to remain in effect for 270 days from such date. In November 2015, the Governor issued Executive Order B-36-15, which extended the SWRCB’s emergency regulation into October 2016 if drought conditions persisted into January 2016. Executive Order B-36-15 further directed the SWRCB to revise the emergency regulations in light of conditions present in January 2016. On February 2, 2016, the SWRCB adopted an extended and revised emergency regulation to ensure that urban water conservation continued in 2016 due to the severity of the water deficits over the past several years. The regulation extended restrictions on urban water use through October 2016, while providing urban water suppliers more flexibility in meeting their conservation requirements through certain credits and adjustments to urban water suppliers’ conservation standards. The regulation further directed SWRCB staff to report back on additional flexibility once more complete water supply information was known in April 2016.

On May 9, 2016, Governor Brown issued Executive Order B-37-16, which extends the emergency water conservation regulation through the end of January 2017. The order also addresses the development and establishment of longer-term water use efficiency standards, including permanent monthly water use reporting and new permanent water use standards. The Executive Order also permanently bans wasteful practices such as hosing off sidewalks, driveways and other hardscapes, calls for long-term improvements in local drought preparation and directs the SWRCB to develop emergency water restrictions for 2017 if the drought persists. The Executive Order also directed the SWRCB to make adjustments to the emergency water conservation regulation in recognition of the differing water supply conditions across the state. On May 18, 2016, the SWRCB approved modification to the drought-related emergency regulation for urban water conservation per the Governor’s May 9 Executive Order. With the action, the SWRCB replaced state-mandated conservation targets with a supply-based approach that considers locally developed conservation standards based on each agency’s specific circumstances and water supplies. Under the modified regulation (the “**May 2016 SWRCB Drought Regulation**”), each water agency in the State is required to self-certify the level of water supplies it will have available assuming three additional dry years, and the level of conservation necessary to assure adequate supply over that time. Urban water suppliers are required to reduce potable water use in a percentage equal to their projected shortfall in the event of three more dry years (*e.g.*, if a water agency projects it will have a 10% supply shortfall at the current

rate of water use, assuming the next three years are dry years, the mandatory conservation standard for that water agency would be 10%). The May 2016 SWRCB Drought Regulation is to be in effect from June 2016 through January 2017.

City Response to Drought. The City responded to these developing state-wide water shortage conditions by enacting a Stage 2 Water Shortage Contingency Plan on January 14, 2014, just a few days prior to the Governors drought declaration on January 17, 2014. The Stage 2 plan identified a series of water use restrictions designed to achieve a 20-30% reduction in water demand. Example measures in the plan included increased public outreach, a reduction in allowable watering days, increased water waste patrols, and an increase in the penalties for violations in water use activities.. Recently, in compliance with the May 2016 SWRCB Drought Regulations, the City completed the self-certification process, which identified a conservation requirement of 0%. The City continues to maintain its Stage 2 Water Shortage Contingency Plan as the State of California remains under drought conditions.

The enactment of the Water Shortage Contingency Plan and overall all citizen awareness of the drought conditions helped the City successfully meet its required conservation targets. In 2014 the City reduced its water demands by 19% as compared to 2013. In 2015 the annual savings rate was 28% as compared to 2014, and under the rules set by the SWRCB in compliance with Executive Order B-29-15, the City met all requirements. Currently, despite a self-certification identifying zero shortage the City has maintained its 2016 year-to-date potable demand at 26% below the water demand in 2013.

Based on a review of the Water System revenues, if the City consistently achieves a 10% conservation level, there will be a reduction of approximately \$3 million in revenue. Accordingly, the City's 26% conservation is expected to reduce revenue projections by approximately \$7.8 million. The decline in revenues is expected to continue in the near-term and the City expects to be able to offset a substantial portion of the reductions through corresponding reductions in the Department's services and supplies budget.

In addition, drought conditions in 2014 and 2015 resulted in reduced water elevation in the Sacramento River which in turn threatened the ability of the City to efficiently draw water from the Sacramento River. Although recently completed improvements to the SRWTP will, upon receipt of certain regulatory approvals, allow SRWTP to divert 160 MGD during peak demand periods, SRWTP requires a minimum water surface elevation in the Sacramento River to achieve the full pumping capacity. The ongoing California drought has led to lower river flows, which has resulted in the potential for reduced pump efficiency in the City's river intake structure. Two recent evaluations undertaken by the City have identified a minimum water elevation of 4 to 6 feet in order to divert the full 160 MGD with all pumps operating at full speed. When the Sacramento River drops below this level, pumping capacity into the SRWTP is gradually reduced. A review of water service elevations over the last 16 years identified a minimum observed elevation of 0.4 feet, which exceeds a minimum elevation of -0.5 feet that was considered in the most recent evaluation by an independent engineering firm. This study identified a probable remaining capacity of 135 MGD at -0.5 feet. The City will continue to better understand the frequency and elevation at which pump efficiency is reduced.

Environmental Compliance

The City's water treatment plants must produce water that meets State and federal regulations for drinking water quality. In general, the State is primarily concerned with the administration of federal drinking water requirements, but can add additional or more restrictive requirements. The three

primary regulations that govern drinking water treatment for the protection of public health in the State are the federal Surface Water Treatment Rule (“**SWTR**”) and its amendments, the federal Total Coliform Rule (“**TCR**”) and its revisions, and the State Surface Water Treatment Rule (“**CA SWTR**”).

If the federal government, acting through the United States Environmental Protection Agency (“**USEPA**”), or the State, acting through the DDW, or additional federal or State legislation, should impose stricter water quality standards or other additional regulatory requirements upon the Water System, then the City’s treatment expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. The City cannot predict the future direction that federal or State regulation will take with respect to drinking water quality standards and requirements, although it is likely that in the future the federal government and the State will impose more stringent standards with attendant higher costs.

Current federal and State drinking water quality regulations applicable to the Water System include primary and secondary drinking water standards, regulations relating to conventional surface water treatment processes including disinfection, and requirements for maintenance of disinfection residual in the distribution system. Significant federal regulations include the Long-term 2 Enhanced Surface Water Treatment Rule to ensure treatment is adequate for cryptosporidium, and the Unregulated Contaminant Monitoring Rule that requires special monitoring for unregulated contaminants (the “**UCMR**”). The UCMR provides the USEPA with data for identifying new constituents to be regulated in drinking water. The UCMR results in additional monitoring costs approximately every five years, and the associated cost is built into the City’s regulatory compliance budget for the Water System. State regulations include the California Waterworks Standards that include provisions to make certain that there is adequate supply for new development and that certified materials that meet safety standards are used. The State and the County institute regulations for construction and destruction of potable water wells to protect public health and the groundwater aquifer.

The City's drinking water is in compliance with all current federal and State drinking water standards, and the City’s drinking water program has no violations in its long history.

The Stage 2 Disinfectants and Disinfection Byproducts (“**DBP**”) Rule requires two types of disinfection byproducts (trihalomethanes and haloacetic acids) to be lower than their respective regulatory standards at representative monitoring locations throughout the distribution system. Based on past monitoring results and current regulations, the City has been in compliance. However, the drought has resulted in higher DBPs in the distribution system and there is a potential to exceed the regulation in the extreme south of the distribution system. The City is in the process of constructing a well in that area that will help maintain the City’s compliance with DBP regulation.

As of April 1, 2016 water systems must comply with the USEPA Revised Total Coliform Rule. This regulation requires public drinking water systems to notify the public if a test exceeds the standard for E. Coli in drinking water. This regulation requires the prioritization of portions of the distribution system for rehabilitation and implementation of a flushing and cleaning program.

DDW published a Final Hexavalent Chromium Regulation on May 2014. Monitoring data indicates that 13 of the City’s permitted 33 wells are within 50% of the maximum contaminant level (“**MCL**”) and therefore monitored more frequently. One well has been suspended from service due to levels approaching the MCL. Another well showed a level above the MCL when it was not flushed sufficiently as it was brought online; prior and subsequent tests confirmed that the well is below the

MCL. If monitoring indicates an increase in hexavalent chromium concentrations, this standard may necessitate treatment at some of the potable water wells or their removal from use; either approach would significantly increase the costs of the Water System, including disposal of treatment residuals.

The USEPA's Lead and Copper Rule ("LCR") was promulgated in June 1997 and is projected to be updated in June 2017. The objective of the LCR is to minimize the corrosion of lead-and copper-containing plumbing materials in public water systems by requiring utilities to optimize treatment control. The LCR establishes action levels instead of MCLs for regulating the levels of both lead and copper in drinking water. Historically, lead pipe was used in service connections in the City and we do not have an inventory of all such components due to the absence of specific historical records. The City practices corrosion control in surface water treatment processes. The City's current monitoring data of representative customer homes indicates compliance with the LCR. The City is working on a plan to identify and replace lead pipe in our distribution system. Identifying and replacing these pipes and modifications to the LCR would increase the Water System costs.

Pending regulations that could impact costs include the USEPA published draft Contaminant Candidate List 4 ("CCL") from January 2015. The CCL is a list of contaminants that are currently not subject to any proposed or promulgated national primary drinking water regulations, but are known or anticipated to occur in public water systems. Contaminants listed on the CCL may require future regulation under the Safe Drinking Water Act (SDWA). The CCL list includes 3 cyanotoxins with EPA health advisories. These have recently been detected in the City's surface water below health advisory levels, at certain times of the year. Potential cyanotoxin regulation could result in an increase in treatment costs.

In addition, the Carcinogenic Volatile Organic Compound Rule, projected to be proposed in February 2018, has a potential to impact costs of the Water System. The final rule would likely be published two years after the proposal. The federal standards for trichloroethylene ("TCE") and tetrachloroethylene ("PCE") may be lowered through this regulation. The State could also lower its TCE standard following the Office of Environmental Health Hazard Assessment reevaluation of the California Public Health Goal. TCE has been detected in one well and PCE has been detected in three wells. The wells have been taken out of service and are under assessment for modifications, treatment, replacement or decommissioning. Additional wells are also under assessment for modifications, treatment, replacement or decommissioning given their location near existing contaminant plumes. The City is in the process of completing a Groundwater Master Plan to assess the City's groundwater system and assets, and provide recommendations on addressing existing issues, replacement and maintenance of existing wells; installing new wells, use of previously disconnected wells for potential beneficial use, and conjunctive use options.

The City participates in regional groundwater-planning activities that include stakeholder participation in groundwater protection from historic contamination plumes; these group efforts include the Sacramento Groundwater Authority and the Sacramento Central Groundwater Authority. City staff has met with staff from the Central Valley Regional Water Quality Board and California Department of Toxic Substances Control to obtain the latest information on groundwater-contamination plumes north of the American River in the vicinity of these wells. Currently, there is progress towards commencing aquifer clean-up of one of the plume sources that affects a number of the existing City wells. Discussions are still occurring regarding the movement of this plume and whether additional treatment along the edges of the plume will be implemented.

For surface water, the City participates in several efforts, along with other water systems that draw water from the Sacramento and American Rivers, to preserve and protect our source water quality. Activities include participation in watershed management programs, tracking the latest information, and conducting technical evaluations and public outreach. These efforts also anticipate and help the City prepare for impacts to surface water quality.

Fluoridation equipment upgrades at the water treatment plants and wells that are operational have been completed, but modifications may be necessary to address potential future changes to the federal and State fluoride standard, while continuing to provide fluoride addition to meet the April 2015 United States Department of Health and Human Services' optimal level.

The City currently is permitted to operate 33 municipal groundwater supply wells, a majority of which have been in service for over 50 years. (As described herein, of the 33 wells, 6 are currently offline for water quality concerns.) The City is developing a conjunctive use strategy for the City's surface water and groundwater supply that will allow flexibility in meeting City water demands based on water availability and supporting regional water resources management and sustainability. As a result, the City has completed the rehabilitation of 20 of the existing groundwater wells, continuing the evaluation of the remaining wells for rehabilitation and is evaluating future needs for system reliability and efficient groundwater production. In addition to the initial costs of investigation and rehabilitation, installation of onsite treatment systems in some City wells may be required. Future changes to drinking water standards may also result in additional treatment and associated increased costs. Existing wells that have been out of service while awaiting rehabilitation would also need fluoridation equipment installed if rehabilitation restores the wells to an acceptable level of performance. Any out of service wells are thoroughly tested before returning to service to ensure that all regulatory requirements are met.

While the City has included the estimated cost of compliance with regulatory requirements in the Projected Operating Results, there can be no assurances that compliance with existing or future requirements will not significantly exceed such estimates. See "CERTAIN RISK FACTORS - Statutory and Regulatory Impact."

Customers

The following table below shows the number of connections of the Water System by user type. Non-residential (i.e., commercial/industrial) represent about 22 percent of the total Water System revenues on average.

Table 5
City of Sacramento
Water System
Number of Connections by User Type
as of June 30

User Type	2012	2013	2014	2015	2016
Residential	126,282	126,376	126,557	126,624	126,973
Commercial/Industrial	8,927	8,977	9,033	9,118	9,157
Total All Users ⁽¹⁾	135,209	135,353	135,590	135,742	136,130

⁽¹⁾ Total does not include the four outside wholesale accounts and one wheeling account.

Source: The Department

The lifting of the building moratorium in Natomas in June 2015 is expected to yield moderate growth in the number of connections. In December 2008, the building moratorium was put in place after the Federal Emergency Management Agency (FEMA) determined the levees in Natomas were not high enough to guard against flooding. In 2012, the Sacramento Area Flood Control Agency completed 18 miles of levee upgrades funded by local tax payers and state bonds. While the remaining 24 mile levee upgrade project is scheduled to start in 2017 by the U.S. Army Corps of Engineers, FEMA designated the Natomas Basin as Zone A99 Such designation although still considered a high risk flood zone allowed for construction to resume in Natomas.

The table below shows the ten largest Water System customers based on service charge revenues (as well as percentage of total revenues) during the Fiscal Year 2016.

Table 6
City of Sacramento
Water System
Largest Customers by Service Charge Revenue⁽¹⁾
Fiscal Year 2016

User	Service Charge Revenue	Percentage of Total Revenue
City of Sacramento	\$2,544,550	2.69%
State of California	853,017	0.90
Sacramento Unified School District	625,470	0.66
Procter and Gamble	533,429	0.56
Sacramento Housing and Redevelopment Agency	481,525	0.51
SMUD (Sacramento Power Authority)	457,039	0.48
DB RE California Residential 2 LLC	311,324	0.33
County of Sacramento	311,288	0.33
Ashley 2012 Family Trust	303,706	0.32
HP Hood LLC	271,015	0.29

⁽¹⁾ Includes all metered and flat rate revenue

Source: The City

The City wholesales water to the Cal AM, Fruitridge Vista Water Company, the SSWD, and the Sacramento County Water Agency. Each of these customers has an agreement stating specific maximum rates of treated City surface water it receives utilizing “firm capacity.” Firm capacity is defined as the capacity in the City’s treatment and transmission facilities to divert, treat, and deliver surface water on an equal priority to the use of such capacity to meet demands of the City’s retail customers, with two exceptions: (1) The maximum rate specified in the Cal Am agreement is reduced when flows in the lower American River at the City’s FWTP fall below the Hodge Flow Criteria; and (2) No water is delivered to SSWD when flows in the lower American River at the City’s FWTP fall below the Hodge Flow Criteria.

Rates and Charges

Subject to the requirements of Article XIID in the State Constitution (otherwise known as Proposition 218), the City has the power to establish rates and charges for services provided through the Water System. 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 2011.

Table 7
City of Sacramento
Water System
Adopted/Projected Rate Increases⁽¹⁾

Fiscal Year (ending June 30)	Rate Increase %
2011	15%
2012	0
2013	10
2014	10
2015	10
2016	0
2017	10
2018	10
2019	10
2020	10
2021	10

⁽¹⁾ Rate increases through Fiscal Year 2019-20 have been approved but the City Council and the requirements of Proposition 218 have been met. The Fiscal Year 2020-21 rate increase is subject to City Council approval and satisfaction of the requirements of Proposition 218.

Source: The City.

To analyze the revenue requirements needed to fund infrastructure projects to ensure Water 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 process of setting utility rates. The Department used the revenue requirements developed by the FCS Group as the basis for the rate adjustments which the Department recommended and the City Council approved for Fiscal Years 2012-13, 2013-14, and 2014-15. Utilizing the same methodology, the Department recommended rate adjustments that the City Council approved for Fiscal Year 2016-17, 2017-18, 2018-19, and 2019-20.

The following table shows selected monthly rates for the Water System for Fiscal Years 2016-17 through 2019-20.

**Table 8
City of Sacramento
Water System
Selected Monthly Rates**

	<u>Rates Effective:</u>			
	(Current) July 1, 2016	July 1, 2017	July 1, 2018	July 1, 2019
<i>Flat Water Use Rates (per month)</i>				
<i>Single Family Residential:</i>				
1-3 rooms	\$35.55	\$39.11	\$43.02	\$47.32
4-5 rooms	46.26	50.89	55.98	61.58
6-9 rooms	50.30	55.33	60.86	66.95
10-15 rooms	58.12	63.93	70.32	77.35
Over 15, each additional room	4.08	4.49	4.94	5.43
<i>Metered Water Use Rates</i>				
Water Usage Rate (\$/CCF)	\$1.0959	\$1.2055	\$1.3261	\$1.4587
<i>Service Charge (per month)</i>				
<i>Metered Size:</i>				
5/8" x 3/4"	\$26.84	\$29.52	\$32.47	\$35.72
3/4"	26.84	29.52	32.47	35.72
1"	26.84	29.52	32.47	35.72
1½"	50.55	55.61	61.17	67.29
2"	79.00	86.90	95.59	105.15

CCF = One hundred cubic feet
Source: The City

Transition to Usage-Based Water Rates for Single Family Customers. The State adopted legislation requiring that all existing residential metered water services begin receiving metered water bills effective January 2011. The same legislation requires that all water utility customers (including the Water System’s customers) have meters installed no later than January 1, 2025. On May 24, 2005, the City Council adopted Resolution 2005-347, directing that water meters be installed throughout the City. The City began transitioning single family residential customers who had received more than one year of comparative metered billing from the flat water rates to water-usage in January 2011.

The City currently charges both a flat-rate structure and a uniform metered charge for its customers. Where meters are installed and charged, metered consumption fees consist of two components – a monthly fixed charge based upon the meter size; and a volumetric uniform commodity rate charged per hundred cubic feet of water usage.

Once a meter is installed, the customer continues to be billed on a flat rate for one year before the metered rate is charged. During this year of “comparative billing”, the customer’s water usage and respective metered rates are displayed on the bill allowing the customer to become familiar with his or her water usage and make water conservation choices. This “comparative billing” is a communication and public outreach strategy employed by the City to encourage conservation.

According to City data, about 50% of the City's water customers are billed based on metered service as of July 1, 2016. On February 24, 2015, the City Council adopted Resolution No. 2015-0056, approving revised guidelines to complete the installation of water meters for all City customers by December 31, 2020, four years ahead of the deadline mandated by State legislation. It is expected that upon implementation of the City's Accelerated Water Meter Program, the City will be completely metered by the end of Calendar Year 2020. (A portion of the proceeds of the Series 2017 Bonds will be used for this purpose.)

The City's current metered rate was restructured in 2009. At that time, approximately 5% of the total accounts in the City were billed on a metered water rate. An outside consulting firm completed a water conservation pricing study for the Department in August 2008. The study included a current customer data review to evaluate current consumption pattern shifts. The results of the evaluation suggest that the then-current rate schedule was not fully recovering the costs of providing service from its customers as they are transitioned to the metered rate schedule. The finding that revenues are trending downward during the meter transition process was accounted for in the current financial and rate planning process based on the projected flat-to-metered rate conversion schedule. The City will actively monitor metered water rate revenues for deviations in forecasted metered revenues.

The City Council authorized the Department to enter into an agreement with Carollo Engineering in August 2016. Under the terms of the agreement, Carollo will develop and provide recommendations regarding tiered rate structure alternatives for water, drought surcharge and master meter rates. The rate alternatives are intended to be revenue neutral and sufficient to generate revenue that meets the Department's financial and service obligations for ongoing operations and maintenance, debt service obligations, system rehabilitation and replacement needs, regulatory commitments, and maintenance of revenue. Currently, the Department anticipates implementing the tiered rate structure during Fiscal Year 2018-19, in conjunction with the implementation of the new billing system. The timing of this implementation is subject to many variables, including: completion of the public outreach, notice and hearing process required by Proposition 218; coordination with implementation of a billing system upgrade or replacement for the Department. Implementation of a new tiered rate structure is contingent upon City Council adoption.

In addition to imposing fees for water service, the City also imposes development fees as a condition for connecting new properties to the Water System. For purposes of the Projected Operating Results, the City has not included any projected development fees.

Collection Procedures

The City bills the legal owner(s) of City parcels for water service connections to the City's Water System. Water service connections include domestic potable, irrigation, and fire service. Billing for water service is included on a monthly bill that may include other utility services provided by the City. Bills are generated within 16 billing cycles per month. Typically, one cycle is billed per 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; which is 35 days from 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 0.5% 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 owner(s) once an account becomes 60 days past due (80 days from billing date). If the account is not paid current, a lien is then assessed against the parcel at 75 days past due (95 days from bill date).

In March 2014, the City implemented a water discontinuance process for customers who are more than 75 days past due. A customer is mailed a notice that it are delinquent and has 30 days to pay the past due balance or setup a payment arrangement. A second notice is mailed to the property 10 days before shut-off to allow a tenant living at the property the ability to establish an account with the City to prevent shut-off. A final notice is mailed and posted on the property five days before the scheduled shut-off. Once an account is shut-off for non-payment, billing for water services is stopped until the customer pays the entire outstanding account balance plus additional fees for shut-off and restoral before water service will be restored. As a result of the water discontinuation process, the amount of unpaid fees required to be collected through the assessment process described below declined by approximately \$1.75 million (or 48%) from Fiscal Year 2013-14 to Fiscal Year 2015-16.

Annually, customers with delinquent accounts that have a balance greater than 75 days past due, are noticed with a special assessment levy. Customers are given the opportunity to protest the charges and have a hearing before an independent hearing officer. After the imposition of special assessments is approved by City Council in July of each year, special assessments for unpaid delinquent amounts are placed on the annual County property tax bill.

In the past two years, an average of 12,783 liens have been recorded against properties having delinquent service charges each year, and an average of 5,818 properties have had special assessment levies placed on their property tax bill. The number of liens and levies represent the properties that had at least one delinquent utility service charge. Since 2014, an annual average of \$1.26 million in late fees have been assessed on utility bills for past due water service charges, and an annual average of \$2.47 million in delinquent water 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, late fees, and shutting off water for non-payment are effective tools 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 liened property is subject to a prior Trust Deed that is foreclosed, the delinquent utility lien is removed (without payment of the delinquent amounts, unless excess proceeds are available after the foreclosure sale). 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 water charges which the City was unable to collect through the lien and special assessment processes described above. When establishing rates each year, the City takes into account projected amounts of charges that it will be unable to collect.

Table 9
Uncollected Water System Charges
(Fiscal Year ending June 30)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Amount	\$1,023,697	\$601,682	\$391,558	\$260,355	\$240,064

Source: The City.

A portion of the proceeds of the Series 2017 Bonds are expected to be used to modernize and upgrade the billing system. The current version of the utility billing system software has been operational by the Department since 2005 and has been in an unsupported state by the software vendor

since 2009. A new billing system will increase levels of service, provide added operational functionality, support new billing structures, seamlessly integrate with existing Department and Citywide systems and fully support the new automated meter telemetry. The upgrade of the existing system is scheduled to start in April 2017 and anticipated to be completed within 16 months from the implementation date.

General Fund Tax on Water 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 in the rate of 11% of the total gross revenues received from user fees and charges of all of the enterprises combined. Measure I (codified as Section 41.10.150 of the Sacramento City Code) 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 user fees of each of the enterprises, including the Water System. In preparing the budget for the Water System each year, the City takes into account the requirement that 11% of collected utility user fees be paid as the tax, and set rates and charges accordingly. 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 Water 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 user fees of the Water System, and a reconciliation is made between the Water Fund and the General Fund.

Pursuant to the Indenture, System Revenues do not include the portion of gross revenues of the Water System from user fees and charges that are recorded to the City's General Fund as part of the voter approved general tax pursuant to the City Code. Such amounts have not been included for purposes of the calculation of debt service coverage in the Projected Operating Results. See "Projected Operating Results."

Budgetary and Financial Procedures

The Water Fund is used to account for the activities associated with the production, distribution, and transmission of potable water by the City to its users. The Water Fund supports both the capital and operating costs of providing potable water throughout the city including production, treatment, and distribution systems. Revenues are generated by user fees, interest earnings, development fees, tap sales, and reimbursements from other entities for service performed by or paid by the Water Fund. The Water Fund is an Enterprise Fund. 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 user fees and development fees are collected through various methods and deposited to a commercial bank. Generally within one business day of receipt, such amounts are deposited into the City's general bank account, which account 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). This cash receipts bank account is swept nightly 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 Water 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 Water System is the Water Fund.

The City maintains a number of funds in connection with the Water System, consisting of the following:

Water Fund. Revenue generated by the City for the purpose of providing water service to its customers is deposited in the Water Fund. Revenues are derived from customer fees, interest earnings, development fees, tap sales, and reimbursements from other entities for services provided. Water Fund revenues are structured to cover the costs of providing water service to its customers which include water treatment, plant maintenance, water distribution system repair and maintenance, water conservation and education programs, water quality monitoring, related engineering services, customer service and billing, the City-County Office of Metropolitan Water Planning, and capital improvements.

Development Impact Fee Fund. Revenue generated by the City in relation to Water System development fees are deposited in the Development Impact Fee Fund. Water System development fees are one-time fees paid at the time of connection to the water system and represent the estimated reasonable cost of providing system capacity to new development. Proposed water system development fees are based on the system buy-in methodology.

ARRA Grant/Loan Fund. The ARRA Grant/Loan Fund is used to account for activities related to the portion of the Water Meter Retrofit Program that is ARRA-funded. The American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law on February 17, 2009. Within California, ARRA provides funding to the Safe Drinking Water State Revolving Fund administered by the CDPH, for infrastructure development for California's drinking water systems. The state entered into the State Funding Agreement pursuant to this program. For a description of the State Funding Agreement, see "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS - Outstanding Parity Obligation."

Grant Projects Fund. The Grant Projects Fund was established in Fiscal Year 2011/2012 to account separately for Water Fund restricted grants and other third-party reimbursements for multi-year programs.

Financial Planning. The Department utilizes a general set of business principles in making day-to-day or long-term decisions. These business principles include regulatory compliance, financial self-sufficiency, maintenance of creditworthiness, and an intention that capacity charges should pay for the costs of increased capacity.

The Department has developed long-range financial plans to evaluate alternatives for funding its capital and operational needs related to the Water System. The current version of the Financial Plan for the Water System was presented to the City Council on March 29, 2016. The plan included a 30-year Water Infrastructure Investment Program (Program) and a four-year rate plan, which allows the City to begin to implement the Program. To develop the financial plan, proposed CIP and operational revenue requirements were consolidated and reviewed against available funding over the four years covered in the plan.

Following completion of the rate adoption process for Fiscal Year 2016-17, the City refined the CIP based on current construction estimates and submitted bids, updated the Fiscal Year 2016-17 budget adoption and related projections, and incorporated anticipated bond sizing and debt service requirements. See “—Capital Improvement Program.”

The Department submits the annual budget for review and eventual inclusion within the City Manager’s budget proposal submitted to the Mayor and City Council by May 1st of each year preceding the start of each fiscal year (July 1).

The City Council formed the Utility Rate Advisory Commission (the “**URAC**”) in 2008 to provide input to the Mayor and City Council on the City’s utility service rates. The URAC reviewed and commented on the Department’s proposed Plan, and ultimately made a recommendation that the City Council approve a four-year utility rate increase plan for the Water enterprise funds. These rate increases were presented to and approved by the City Council on March 29, 2016.

The City Council has not adopted formal fiscal policies for the Department but the Department currently has non-binding financial policies for the Water Fund, including maintenance of 120 days of working capital reserves; and establishment and maintenance of a Rate Stabilization Fund.

Investment of Funds

Funds of the Water 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 sections 53600, et seq., with the primary objectives, in order of priority, of safety, liquidity, and yield. Quarterly, the City’s investment committee (the “**Investment Committee**”) consisting of representatives of the various entities which are investors in Pool A (including various 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 representatives) convenes to review the investments and performance of the investments. The Investment Committee also reviews the implemented investment strategy in relation to the changing financial markets. The City Treasurer submits an investment activity report monthly for review by the City Council, which report includes minutes of each quarterly Investment Committee meeting.

Water 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 such purpose must be repaid prior to June 30 in the fiscal year in which they are borrowed. While the City utilized Water System and other enterprise funds for cash flow purposes from time to time in the past (and may do so in the future), the City also has utilized tax revenue anticipation notes for cash flow purposes from time to time, but has not done so since July 18, 2013.

See “CERTAIN RISK FACTORS- Effect of Losses in City Investment Pool.”

Capital Improvement Program

The City’s capital improvement program includes a comprehensive five-year plan for capital project expenditures for the entire City, including the Water System. The capital improvement

program is a guide for identifying current and future fiscal 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.

Water CIP. The focus of the Water System Capital Improvement Program (“CIP”) over the next five years will be on rehabilitating and/or replacing critical infrastructure and continuing the City’s water meter retrofit program.

The following table sets forth capital improvement costs identified in the CIP through Fiscal Year 2017-21, as well as sources of funding.

Table 10
City of Sacramento
Projected Water System CIP and Sources of Funding
(in Millions)

Fiscal Year Ending June 30	Bond Proceeds	Additional Parity Obligations	Current Revenues	Total Capital Improvement Cost
2017	\$67.4	\$8.3	\$8.2	\$83.9
2018	0	88.3	6.7	95.0
2019	0	61.0	12.0	73.0
2020	0	15.5	8.0	23.5
2021	0	0	16.6	16.6
Total	\$67.4	\$173.1	\$51.5	\$292.0

(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/programs to ensure that it is 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 Water System infrastructure replacement to the “Best Practices” level and, where necessary, to improve systems where they do not meet current levels of service.

In keeping with the established goals under the long-term plan, the City will continue to face future fiscal challenges in sustaining the level of service customers expect with an aged Water System infrastructure that has some components nearing or has exceeded their remaining service life. As a result, after Fiscal Year 2020-21, 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.

In addition to the currently planned capital improvement planning efforts described above, the City issued a long-term Master Plan for the Water System in 2013. The Master Plan considered the projected impact of potential future growth in the City through 2043. If there is significant growth, improvements and expansions to the Water 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, and therefore the costs of these expansions or improvements are not included in the Projected Operating Results or the planned capital improvement costs described above. The City also adopted its 2015 Urban Water Management Plan, in June 2016, which demonstrates that the City holds water rights in excess of all projected water demands through at least 2040 (subject to perfection of the City's water rights, as described in "- Water Rights and Resources"). The Urban Water Management plan also demonstrates that the City is meeting statewide mandates in water conservation.

Retirement Programs

Salary and benefit costs of the Water System include funding of retirement benefits for employees assigned to the Water System who, as City employees, participate in the California Public Employees Retirement System ("PERS"). City employees assigned to the Water System constitute approximately 7 percent of all City employees. Retirement payments paid from Water System Revenues, with respect to employees assigned to the Water System, were approximately \$2.0 million in Fiscal Year 2013-14, approximately \$2.1 million in Fiscal Year 2014-15, and approximately \$2.5 million in Fiscal Year 2015-16. The City estimates that the required contribution for Fiscal Year 2016-17 will be approximately \$3.6 million, and projects the required contribution for Fiscal Year 2017-18 will be approximately \$3.8 million in. Payments to PERS constitute Maintenance and Operation Costs of the Water System.

For a variety of reasons, including investment losses, the City has experienced significant unfunded accrued liabilities, and retirement costs payable with respect to all City employees, including those assigned to the Water System, have increased in recent years. According to the June 30, 2015 CalPERS Actuarial Valuation, the City's "Miscellaneous Plan" with PERS (in which the City employees assigned to the Water System participate) had an unfunded liability (with respect to all participating City employees, including employees assigned to the General Fund, the Water Fund and other enterprise funds) of approximately \$256 million and a funded ratio 76.1%.

As a result, required contributions from the City are expected to significantly increase. See APPENDIX A — "AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2015" — 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 total OPEB related payments were approximately \$9.9 million in Fiscal Years 2014 15 and 2015-16 and are projected to be approximately \$9.6 million in Fiscal Year 2016-17. The City's actuarial contribution of \$13.5 million for Fiscal Year 2014-15 included an implied subsidy of \$3.6 million, the result of blended premiums for active employees and retirees. Approximately 4% of the City's total payment is made from System Revenues. See APPENDIX A — "AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2015" — 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 Water 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 are \$1,922,653,706 for Fiscal Year 2017. 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 California State Association of Counties Excess Insurance (“**CSAC**”) GL2 Program for the purchase of excess liability insurance.

The City’s excess workers’ compensation limits are set at statutory coverage for Fiscal Year 2016-17 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 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 Water System

Since 1999, the City has from time to time financed capital improvements (including capital improvements to the Water System) 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 \$386 million of Master Lease Bonds outstanding. Pursuant to the Master Lease Program and pursuant to a lease agreement, the City has leased a pool of various City-owned properties (the “**Leased Property**”) to SCFA. Examples of Leased Property include City Hall, the Granite Regional Park, various City fire stations, and the Memorial Auditorium and, as described below, certain components of the Water System. SCFA concurrently subleased the Leased Property back to the City pursuant to 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 financing or refinancing of Water System improvements in 2005 and 2006, and a subsequent issuance in 2015 that fully refunded the 2005 issuance SCFA issued Master Lease Bonds approximately \$123 million in principal remains outstanding. In order to effectuate the issuance of these Master Lease Bonds for Water System purposes, the City added portions of the SRWTP (including a settlement basin and other facilities) as well as the Florin Reservoir as part of the

Leased Property. The final maturity of the Master Lease Bonds is December 1, 2033. However, the components of the Water System that constitute Leased Property will not be released from the Master Lease until (i) 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 (ii) the City elects to effectuate the release. There can be no assurances that the Water System components that constitute Leased Property will be released from the Master Lease prior to the maturity of either the Series 2013 Bonds or the Series 2017 Bonds or both.

Pursuant to the Master Lease, the City is obligated 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 Leased Property is unavailable for beneficial use due to damage, destruction or condemnation.) However, in circumstances where Master Lease Bonds were issued to finance improvements for one of the City's enterprise funds (water, solid waste or storm drainage), the City has generally paid the portion of Master Lease payments allocable to such bonds from the enterprise that benefitted. Accordingly, the City has paid from Water System revenues the portion of the overall Master Lease payments allocable to the Master Lease Bonds issued for Water System purposes, and intends to continue to do so. Pursuant to the Indenture, the City has covenanted that it will not use System Net Revenues to pay, or reimburse the City's General Fund for the payment of, any existing or future General Fund lease obligation of the City unless 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 or unless such payment or reimbursement has been secured as a Parity Obligation, Subordinate Obligation or Fee and Expense Obligation after compliance with the conditions of the Indenture.

Pursuant to the Master Lease, the Master Lease Trustee (as assignee of SCFA) has certain remedies in the event 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, even if the portion of the overall Master Lease payments allocable to the Master Lease Bonds issued for Water System purposes is paid from Water System revenues in a timely manner, in the event that the City fails to make payments allocable to the Master Lease Bonds issued for purposes other than the Water System, then the Master Lease Trustee could elect to exercise remedies against the portion of the Leased Property consisting of the components of the Water System.

Pursuant to the Indenture, the City has covenanted that it will not encumber any components of the Water System under a City General Fund lease except for the components of the Water System that are 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 Water System that are 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, encumbered components of the Water System.

There can be no assurances that, in the event that the City fails to make required payments pursuant to the Master Lease for any reason, such circumstances would not result in significant increases in costs of the Water System, or materially adversely affect the operation of the Water System

or the ability of the Water System to generate System Net Revenues in the amounts required by the Indenture.

Floods

In 2005, in response to revised criteria and standards relating to levees and flood protection, the United States Army Corp of Engineers and the Sacramento Area Flood Control Agency (“**SAFCA**”) commissioned the Natomas Levee Evaluation Study (“**NLES**”). The NLES final report concluded that considerable improvements were necessary along the south levee of the Natomas Cross Canal, the east levee of the Sacramento River, and the north levee of the American River. As a result of these conclusions, on July 20, 2006, the Corps issued a letter to the SAFCA stating that the Corps could no longer support its original position certifying the levees in the Natomas Basin. On December 29, 2006, FEMA issued a letter to the City notifying the City that FEMA planned to update the Flood Insurance Rate Map within the Natomas Basin. On December 8, 2008, FEMA’s Revised Map became effective, placing the Natomas Basin area of the City within a Special Flood Hazard Area (“**Zone AE**”). As a result of the Revised Map and the Zone AE designation, the Natomas Basin was subject to a de facto building moratorium from December 2008 through June 15, 2015.

FEMA has issued a revised map and designated the area within the Natomas Basin (including the District) as Zone A99 effective June 16, 2015, which allows for the resumption of new building construction, subject to certain limitations. According to FEMA, an area designated as Zone A99 has a 1% annual chance of a flood event but ultimately will be protected upon completion of an under-construction federal flood-protection system. The four major requirements for such designation are (a) 50% of the critical improvements to achieve a 100-year level of flood protection have been constructed, (b) 50% of the total cost for such improvements has been expended, (c) 60% of the total cost of the improvements has been appropriated, and (d) 100% of the improvements have been authorized.

Even though the Natomas Basin has been designated as Zone A99, the Natomas Basin will not be outside of a 100-year flood zone until certain levee improvements are completed. On June 10, 2014, President Barack Obama signed the Water Resources Reform & Redevelopment Act (“**WRRDA**”) into law. With respect to the Natomas Basin, the WRRDA directs the Corps to strengthen 24 miles of levees surrounding the Natomas Basin (the “**Levee Project**”). Although the WRRDA authorizes funding, the Congress must pass annual appropriations to complete the Levee Project. Currently, the completion of the Levee Project is expected to take at least five to ten years. If the Levee Project is completed, the City expects that under current FEMA criteria, the Natomas Basin will be zoned “X (shaded),” meaning an area that is subject to a 0.2% annual chance of a flood event (i.e., a 500-year flood zone).

According to the revised FEMA maps, the SRWTP and the FWTP are currently outside the 100-year floodplain. There are however, nine wells and four reservoirs that are within FEMA-designated floodplains. There are currently projects in planning or construction to protect all of these wells and reservoirs from significant flooding events. However, there can be no assurances that a significant flooding event would not materially adversely affect the operations of the Water System. See “**CERTAIN RISK FACTORS - Earthquake, Flood or Other Natural Disasters.**”

Historical Operating Results

The following table contains a summary of certain historical operating results of the Water System, as excerpted from the City's audited financial statements. These results are not presented in accordance with the conventions of the Indenture.

Table 11
Historical Water Fund Revenues and Expenses
(Dollars in Thousands)

	<u>Fiscal Year</u> <u>2010-11</u>	<u>Fiscal Year</u> <u>2011-12</u>	<u>Fiscal Year</u> <u>2012-13</u>	<u>Fiscal Year</u> <u>2013-14</u>	<u>Fiscal Year</u> <u>2014-15</u>
Operating Revenues:					
Utility Rate Fees ⁽¹⁾	\$77,106	\$78,124	\$86,358	\$93,740	\$99,940
Wholesale Water Sales	1,739	1,634	2,379	330	536
Impact Fees	2,694	2,193	1,220	644	1,437
Interest Earnings ⁽²⁾	1,306	1,072	519	1,677	492
Miscellaneous Revenues ⁽³⁾	6,446	3,530	3,267	2,228	3,467
Subtotal Operating Revenues	<u>\$89,291</u>	<u>\$86,553</u>	<u>\$93,743</u>	<u>\$98,619</u>	<u>\$105,872</u>
General Fund Tax Transfer Out:					
General Fund Tax ⁽⁴⁾	(8,378)	(8,493)	(9,413)	(10,216)	(10,893)
System Revenues:	\$80,913	\$78,060	\$84,330	\$88,403	\$94,979
Operation and Maintenance Costs:					
Employee Services	\$(23,360)	\$(23,409)	\$(24,348)	\$(25,008)	\$(25,504)
Services and Supplies	(16,943)	(19,774)	(18,543)	(18,062)	(19,712)
Total Operation and Maintenance Costs	<u>(40,303)</u>	<u>(43,183)</u>	<u>(42,891)</u>	<u>(43,070)</u>	<u>(45,216)</u>
(Deposit to)/Withdrawal From Rate Stabilization Fund ⁽⁵⁾	-	-	(3,215)	(2,503)	(1,068)
System Net Revenues:	\$40,610	\$34,877	\$38,224	\$42,830	\$48,695
<u>Obligations and Debt Service:</u>					
Parity Obligations					
California Department of Public Health Loan (ARRA Loan)	\$(34)	\$(141)	\$(438)	(640)	(639)
Water Revenue Bonds, Series 2013				(9,730)	(13,970)
Sub Parity Obligations Debt Service	\$(34)	\$(141)	\$(438)	\$(10,370)	\$(14,609)
Subordinate Obligations Debt Service					
Subordinate Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal Subordinate Obligations Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -
Unsecured Obligation					
2005 Master Lease Refunding Revenue Bonds	\$(3,180)	\$(3,181)	\$(7,512)	\$(7,600)	\$(7,592)
2006 Master Lease Capital Improvement Bonds, Series E (Refunding)	(7,997)	(7,989)	(4,847)	(4,845)	(4,844)
Subtotal Unsecured Obligations Debt Service	<u>\$(11,177)</u>	<u>\$(11,170)</u>	<u>\$(12,359)</u>	<u>\$(12,445)</u>	<u>\$(12,436)</u>
Total Water Fund Obligations (Parity+Subordinate+Unsecured)					
	\$(11,211)	\$(11,311)	\$(12,797)	\$(22,815)	\$(27,045)
<u>Coverage Requirement Compliance</u>					
Parity Obligations and Bonds (Requirement is 1.2 times)	1194.41x	247.35x	87.27x	4.13x	3.33x
Parity/Bonds+Subordinate Obligations+Unsecured Obligations (Requirement is 1.00 times)	3.62x	3.08x	2.99x	1.88x	1.80x

NOTES

- (1) Utility Rate increases of 10% were approved for FY 2012-13, 2013-14, and 2014-15 by the City Council.
- (2) Includes interest earnings/revenue associated with Water Development Fees Fund and the Water User Fee Fund.
- (3) Miscellaneous revenues include Miscellaneous, Transfer in, Grants and Other Capital, and Revenues From Other Agencies. The Transfers In are generally income derived from fleet vehicles sales.
- (4) Pursuant to Measure I of the City Code (Section 41.10.150), the voter-approved general fund tax is equal to 11% of the collected utility rate revenue. City utility service rates are set at the amounts necessary to pay the City's costs of service, which includes the general tax. The general tax is calculated on an annual basis and transferred to the City's General Fund each year to support city wide services.
- (5) Pursuant to the 2013 Revenue Bonds Indenture, the City has established and maintains a Rate Stabilization Fund. The Rate Stabilization Fund is adjusted to fund in an amount equal to 25% of all debt service (parity, subordinate and unsecured)

Source: The City

Projected Operating Results

The Projected Operating Results are based upon a variety of assumptions, calculations and qualifications and reflect the planning efforts of the Department. Although rate increases through Fiscal Year 2019-20 have been approved by the City Council, full implementation of the Department's plans will require rate increases in Fiscal Year 2020-21 and beyond, implementation of which will require City Council and satisfaction of the requirements of Proposition 218. There can be no assurances that the City will not modify the rehabilitation and capital improvement plan described herein, or decline to adopt or impose rates in the amounts contemplated in the Projected Operating Results.

While the City believes the assumptions used in the Projected Operating Results to be reasonable, the actual future conditions may vary significantly from the assumptions. 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. There can be no assurances that such variations will not be material and adverse.

Table 12
Summary of Projected Operating Results

	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
<u>Operating Revenues</u>					
Utility Rate Fees ⁽¹⁾	\$104,350,875	\$107,624,494	\$116,956,943	\$127,552,638	\$137,496,275
Wholesale Water Sales	299,156	299,156	299,156	299,156	299,156
Water Impact Fees ⁽²⁾	-	-	-	-	-
Interest Earnings ⁽³⁾	400,000	807,865	935,656	1,020,421	1,099,970
Miscellaneous Revenues	992,751	1,017,570	1,043,009	1,069,084	1,095,811
Subtotal Operating Revenues	\$106,042,782	\$109,749,085	\$119,234,764	\$129,941,299	\$139,991,212
<u>General Fund Tax Transfer Out</u>					
General Fund Tax ⁽⁴⁾	\$(11,454,278)	\$(11,775,774)	\$(12,796,052)	\$(13,954,657)	\$(15,229,123)
System Revenues:	\$94,588,504	\$97,973,311	\$106,438,712	\$115,986,642	\$124,762,089
<u>Operation and Maintenance Costs</u>					
Employee Services ⁽⁵⁾	(37,411,203)	(39,133,132)	(39,892,666)	(40,625,349)	(42,385,627)
Services and Supplies ⁽⁶⁾	(13,920,207)	(17,379,958)	(18,112,322)	(18,542,095)	(19,304,171)
Total Operation and Maintenance Costs	\$(51,331,410)	\$(56,513,090)	\$(58,004,988)	\$(59,167,444)	\$(61,689,798)
System Net Revenues	\$43,257,094	\$41,460,221	\$48,433,724	\$56,819,198	\$63,072,291
<u>Obligations and Debt Service</u>					
<u>Parity Obligations</u>					
California Department of Public Health Loan (ARRA Loan) ⁽⁷⁾	\$(702,382)	\$(702,382)	\$(702,382)	\$(702,382)	\$(702,382)
Water Revenue Bonds, Series 2013	(14,016,000)	(14,017,500)	(14,014,750)	(14,017,000)	(14,013,500)
Proposed Parity Obligation ⁽⁸⁾	-	(15,064,809)	(15,064,809)	(15,064,809)	(15,064,809)
Sub Parity Obligations Debt Service	\$(14,718,382)	\$(29,784,691)	\$(29,781,941)	\$(29,784,191)	\$(29,780,691)
<u>Subordinate Obligations Debt Service</u>					
Subordinate Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal Subordinate Obligations Debt Service	\$ -				
<u>Unsecured Obligations</u>					
2006 Master Lease Capital Improvement Bonds (Refunding) ⁽⁹⁾	\$(4,844,584)	\$(4,844,584)	\$(4,844,584)	\$(4,844,584)	\$(4,844,584)
2015 Master Lease Refunding Revenue Bonds	\$(6,902,900)	\$(6,895,975)	\$(6,884,300)	\$(6,877,775)	\$(6,863,825)
Subtotal Unsecured Obligations Debt Service	\$(11,747,484)	\$(11,740,559)	\$(11,728,884)	\$(11,722,359)	\$(11,708,409)
Total Water Fund Obligations (Parity+Subordinate+ Unsecured)	\$(26,465,866)	\$(41,525,250)	\$(41,510,825)	\$(41,506,550)	\$(41,489,100)
<u>Coverage Requirement Compliance</u>					
Parity Obligations and Bonds (Requirement is 1.2 times)	2.94x	1.39x	1.63x	1.91x	2.12x
Parity/Bonds+Subordinate Obligations+Unsecured Obligations (Requirement is 1.00 times)	1.63x	1.00x	1.17x	1.37x	1.52x
<u>Capital Outlay</u>					
Capital Outlay (Pay Go & Use of Water Fund Capital Reserve)	\$(8,204,625)	\$(6,776,000)	\$(11,550,000)	\$(8,000,000)	\$(16,647,000)
Net Change to Unrestricted Fund Balance	\$8,586,603	\$(6,841,029)	\$(4,627,101)	\$7,312,648	\$4,936,192
Beginning Unrestricted Water Fund Balance ⁽¹⁰⁾	\$39,718,321	41,463,895	29,995,765	32,681,312	44,930,152
Ending Unrestricted Water Fund Balance	\$48,304,924	\$34,622,866	\$25,368,663	\$39,993,960	\$49,866,343

NOTES

1. Utility Rate increases of 10% are approved for Fiscal Year 2016-17, 2017-18, 2018-19, and 2019-20. Rate increase of 10% in fiscal year 2020-21 is not approved and will require City Council approval.
2. Beginning Fiscal Year 2016-17, account growth is estimated at 2% per year but impact fees continue to be projected at \$0 to be conservative.
3. Interest earnings are estimated at 0.5% of the Water Fund Utility Rate Fees collected for Fiscal Year 2017-18, 2018-19, 2019-20, and 2020-21. For fiscal year 2017-18 includes interest earnings from the capital project deposits from the Water Revenue Bonds, Series 2017 at 0.8% based on estimated Pool A rate.
4. Pursuant to Measure I of the City Code (Section 41.10.150), the voter-approved general fund tax is equal to 11% of the collected utility rate revenue. City utility service rates are set at the amounts necessary to pay the City's costs of service, which includes the general tax. The general tax is calculated on an annual basis and transferred to the City's General Fund each year to support city wide services.
5. Employee services cost increases are subject to approval by the City Council, but such costs are estimated to increase by 4% per year.
6. Services and Supplies costs include estimated annual increases of 4% for utilities, 5% for fuel, and 3% for chemicals.
7. Pursuant to the terms of the Funding Agreement between the California Department of Public Health and the City, deposits to the reserve fund must be made over the first ten years of the loan repayment term. The amounts shown here include \$31,926 per semiannual payment for this purposes.
8. Proposed Parity Obligations consists of the 2017 Water Revenue Bonds and Drinking Water SRF Loan. The estimated par amount of the Proposed Parity Obligations is approximately \$245 million, of which the Drinking Water SRF loan is estimated to account for \$71 million. Although the DWSRF loan will likely have a lower financing rate and shorter maturity structure than the 2017 Water Revenue Bonds are both obligations were modeled at a 4.50% financing rate and amortized over 30 years.
9. Refers to existing debt service payments payable from the Water Fund for the Water System-related improvements financed by the City's Master Lease Revenue Bond financings. The Water Fund is utilized, but not directly pledged, to make debt service payments.
10. The Beginning Unrestricted Fund Balance is based on the City's budgetary basis of accounting which treats purchase order encumbrances and multi-year project appropriations as expended in the year appropriated. As a result, the Beginning Unrestricted Fund Balance is significantly lower than the unrestricted cash and investments reported in the City's Comprehensive Annual Financial Report.

Source: City

THE SERIES 2017 PROJECT

The Series 2017 Project consists of that portion of the Water CIP to be funded from the proceeds of the Series 2017 Bonds. The following table identifies costs associated with major elements of the Series 2017 Project.

Table 13
Series 2017 Project Elements
(Dollars in Millions)

	Category	Amount
	Meter Program	\$64.5
	Other	2.9
	Total	<u>\$67.4</u>

Source: The City

As shown above, the majority of the proceeds of the Series 2017 Bonds will be used for the acquisition and installation of approximately 25,000 water meters. Approximately one-third of the meters to be installed in the program are in areas with backyard mains, which may be replaced in connection with the meter installation. The remaining proceeds are expected to be used for the replacement of aging infrastructure, including distribution and transmission mains and equipment that has reached the end of its useful life at both treatment plants and the City water quality laboratory, and modernization of the City billing system.

CERTAIN RISK FACTORS

The following factors, which represent certain major risk factors, should be considered along with all other information in this Official Statement by potential investors in evaluating the Series 2017 Bonds. There can be no assurance that other risk factors do not currently exist or will not arise at any future time due to changed circumstances or otherwise.

Rate Covenant Not a Guarantee

The ability of the City to pay the principal of and interest on the Series 2017 Bonds depends on the ability of the City to generate System Net Revenues in 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 and charges and other System Revenues described herein, there is no assurance that such imposition of such fees, connection fees or 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 2017 Bonds.

Increased Costs

The actual cost of operating and maintaining the Water System and implementing necessary capital improvements (including the Series 2017 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, earthquake, flood or other natural disasters, severe weather conditions,

environmental conditions, regulatory requirements, or other events outside of the control of the City. There can be no assurances that such costs will not significantly exceed the amounts projected by the City.

In the event that actual costs of operating and maintaining the Water System and/or implementing necessary capital improvements (including the Series 2017 Project) significantly exceed the amounts projected by the City, such circumstances could have 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 delivery of drinking water 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, which could materially impact the City's operations, and could require significant increases in capital and/or operating costs of the City. See "THE WATER SYSTEM—Environmental Compliance."

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 with respect to the Series 2017 Bonds, no assurance can be given that the cost of remediation of identified environmental conditions or compliance with such laws and regulations will not materially adversely affect the ability of the City to generate System Net Revenues in the amounts required by the Indenture and to pay debt service with respect to the Series 2017 Bonds.

Availability of Water Supply; Drought

There are a variety of factors that can adversely affect the supply of water available to the City. If the water supply decreases significantly, whether by operation of mandatory supply restrictions or otherwise, sales of water could diminish and Net System Revenues available to pay debt service with respect to the Bonds may be adversely affected. In addition, lower water usage by customers in response to drought measures now or in the future could result in reduced water consumption and consequently lower Net System Revenues. While the Department plans for and manages its operations to account for normal occurrences of drought conditions, the State has been experiencing one of the worst droughts in recorded State history. See "THE WATER SYSTEM – Water Rights and Resources" and "-- Drought."

Accuracy of Projections

The Department has made a variety of assumptions in the Projected Operating Results. The Department believes these assumptions to be reasonable, but actual conditions may be different than those assumed. To the extent that any of these assumptions fail to materialize, the Net Revenues available to pay debt service could be materially less than those projected herein. See "THE WATER SYSTEM—Projected Operating Results."

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,” in 2009 the City entered into the State Funding Agreement, which has an outstanding principal amount of approximately \$8.4 million as of January 1, 2017. The City’s obligations with respect to the State Funding Agreement constitute a Parity Obligation under the Indenture. The State Funding Agreement provides 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 2017 Bonds) are not subject to acceleration; provided, however that if in the future any Bonds are issued as Variable Rate Obligations, such Bonds might be subject to acceleration if such Bonds become Liquidity Facility Bonds. In addition to the City’s obligations with respect to the State Funding Agreement, 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, in the event that the payments with respect to the State Funding Agreement any Liquidity Facility Bonds, or any future Parity Obligations are accelerated, such circumstances would not materially adversely effect the ability of the City to pay debt service with respect to the Series 2017 Bonds.

Aging Components of Water System

Significant portions of the pipeline within the Water System are significantly older than their originally expected useful life. 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 WATER SYSTEM – Water System Facilities.”

Earthquake, Flood or Other Natural Disasters

The potential for natural disasters to cause catastrophic damage to any urban area, including its above-ground and below-ground water infrastructure, in California 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 Water System. Certain areas in the Water System service area and certain facilities of the Water System have been identified as being within a 100-year flood plain. See “THE WATER SYSTEM —Floods” herein.

The occurrence of a flood, earthquake or other natural disaster could result in significantly increased costs that could materially adversely affect the ability of the City to operate the Water System or to generate System Net Revenues at the levels required by the Indenture.

Billing System Upgrade

The current version of Customer Information System utility billing software has been operational at the Department since 2005 and is no longer supported by the original software or hardware suppliers. There are no plans for any new releases, any added functionality or security updates and the product is at risk for becoming non-compliant in the current operating environment. A failure of the system could result in an extended period of reduced revenue for the Department and decreased levels of customer service. In addition, transition to a new billing system could result in interruptions or other problems in billing of customers.

Commingling of System Revenues

As described herein in “THE WATER SYSTEM - Budgetary and Financial Procedures,” the City commingles the System Revenues with its other funds, and can use such Water System Funds for cash flow purposes. The Trustee and the holders of the Series 2017 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 2017 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 of the Series 2017 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. While 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 of the Series 2017 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 of the Series 2017 Bonds are entitled to be paid.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the 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 Water System that are greater or different than 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 of the Series 2017 Bonds. It is not clear precisely which expenses would constitute necessary operating expenses.

If the City is in bankruptcy, the parties (including the holders of the Series 2017 Bonds) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Series 2017 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 of the Series 2017 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 of the Series 2017 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 2017 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 of the Series 2017 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 of the Series 2017 Bonds will be adequately protected.

The City may be able, without the consent and over the objection of the Trustee and the holders of the Series 2017 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 2017 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

As described herein in “THE WATER SYSTEM - Leasing of Certain Components of the Water System,” the City has leased certain assets of the Water 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 of the Series 2017 Bonds may no longer be entitled to receive any System Net Revenues generated by such leased assets and the Water System may experience an increase in operating costs, thereby further reducing the System Net Revenues available to pay debt service on the Series 2017 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 of the Series 2017 Bonds may no longer be entitled to receive any System Net Revenues generated by such leased assets and the Water System may experience an increase in operating costs, thereby further reducing the System Net Revenues available to pay debt service on the Series 2017 Bonds.

There may be delays in payments on the Series 2017 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 2017 Bonds, or result in losses to the holders of the Series 2017 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 2017 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, 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 2017 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 2017 Bonds.

Limitation on Remedies

If an Event of Default should occur, the Trustee and the holders of the Series 2017 Bonds have no ability to accelerate the maturity of the Series 2017 Bonds. This means that even after an Event of Default occurs, the Series 2017 Bonds may be paid according to the regularly-scheduled due dates. This may result in delays or reductions in payments on the Series 2017 Bonds compared to what would happen if the Trustee could accelerate the maturity of the Series 2017 Bonds, and could cause the market value of the Series 2017 Bonds to decline after the occurrence of an Event of Default. Also see "--Potential Acceleration of Parity Obligations and Liquidity Facility Bonds; No Acceleration of Bonds.

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 XIII C and XIII D to the California Constitution and contains 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 SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIC and Article XIID ("**SB 919**"). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "**Bighorn Decision**") that charges for ongoing water delivery are property related fees and charges within the meaning of Article 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 contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (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 which 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 Water System. The initiative was not approved by the voters.)

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 authority’s charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends 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 Water 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 water service, the City also imposes development fees as a condition for connecting new properties to the Water System. The City does not believe that these development fees are subject to Proposition 218.

Pursuant to the Indenture, the City has covenanted that it will set rates for Water System services at specified levels. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Rate Covenant" herein. In the event that proposed increased service charges cannot be imposed as a result of a majority protest or an initiative, 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 2017 Bonds.

ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance of the Series 2017 Bonds or in any way contesting or affecting the validity of the Series 2017 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 Water System or the sources of payment for the Series 2017 Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Series 2017 Bonds 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), commencing with the report for the 2016-17 Fiscal Year (the "**Annual Report**"), and 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 Electronic Municipal Market Access system (“EMMA”). The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is described in “APPENDIX D– FORM OF CONTINUING DISCLOSURE CERTIFICATE,” attached to this Official Statement. These covenants have been made in order to assist the underwriter of the Series 2017 Bonds in complying with Securities Exchange Commission Rule 15c2 12(b)(5).

The City has previously entered into a number of continuing-disclosure undertakings under the Rule in connection with the issuance of long-term obligations and has provided annual financial information and event notices in accordance with those undertakings. In certain continuing-disclosure filings during the past five years, the City provided links to the City’s website where documents could be downloaded rather than submit the documents as part of the filing itself; with respect to certain bonds of the Sacramento City Financing Authority (the “Authority”) 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 Authority’s bonds and SHRA’s bonds did not expressly include all the required information (including, in one instance, unaudited financial statements). In addition, certain filings were made after the required filing date, such as the City’s audited financial statements for fiscal years 2011 and 2013 with respect to some prior issues, the City’s annual reports for each of the past five fiscal years with respect to some prior issues, and certain required information supplementing the City’s annual reports for certain prior issues (including the City’s budget in at least two instances). The City did not file notice of late filings in the past five years. On one occasion, the City inadvertently failed to file a notice of an insurer-related rating change.

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 2017 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 2017 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 E hereto.

To the extent the issue price of any maturity of the Series 2017 Bonds is less than the amount to be paid at maturity of such Series 2017 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2017 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 2017 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 2017 Bonds is the first price at which a substantial amount of such maturity of the Series 2017 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 2017 Bonds accrues daily over the

term to maturity of such Series 2017 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 2017 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2017 Bonds. Beneficial Owners of the Series 2017 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2017 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2017 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2017 Bonds is sold to the public.

Series 2017 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 2017 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 2017 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 2017 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2017 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 2017 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2017 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 2017 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 amounts treated as interest on, the Series 2017 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 2017 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. For example, the Obama Administration’s budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the 2017 Bonds to some extent for high income individuals. 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 2017 Bonds. Prospective purchasers of the Series 2017 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 2017 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 2017 Bonds ends with the issuance of the Series 2017 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 2017 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 2017 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 2017 Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGALITY

The validity of the Series 2017 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 E 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 Underwriters by Nixon Peabody LLP, and for the City by the City Attorney and its Disclosure Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

RATINGS

S&P Global Ratings and Fitch Ratings have assigned the Series 2017 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. 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 2017 Bonds.

UNDERWRITING

The underwriters listed on the cover of this Official Statement (the “**Underwriters**”) have agreed, subject to certain conditions, to purchase the Series 2017 Bonds at a price of \$_____ (consisting of the aggregate principal amount of the Series 2017 Bonds plus original issue premium of \$_____ less Underwriters’ discount of \$_____). The Purchase Contract relating to the Series 2017 Bonds provides that the Underwriters will purchase all of the Series 2017 Bonds if any are purchased. The Series 2017 Bonds may be offered and sold by the Underwriters 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 Underwriters.

The Underwriters have provided the following for inclusion in the Official Statement:

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. In the various course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Siebert Cisneros Shank & Co., L.L.C. (“SCS”) has entered into an agreement with Muriel Siebert & Co. for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Muriel Siebert & Co. will purchase the Bonds at the original issue price less the selling concession with respect to any Bonds that Muriel Siebert & Co. sells. SCS will share a portion of its underwriting compensation with Muriel Siebert & Co., if applicable.

INDEPENDENT AUDITOR

Audited financial statements of the City (including the Water Fund) for the Fiscal Year ended June 30, 2016, are attached hereto as Appendix A. The City’s financial statements were audited by the independent accounting firm of Vavrinek, Trine, Day & Co., 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 Water Fund and the other enterprise funds relating to, the City’s wastewater system, solid waste system and storm water drainage system. The Series 2017 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 2017 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 2017 Bonds.

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

CITY OF SACRAMENTO

By: _____
[] City Treasurer

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE CITY

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 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 Water Fund and the funds relating to the City's wastewater system, solid waste system and stormwater drainage system. The Series 2017 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 2017 Bonds.

APPENDIX B

**GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING
THE CITY OF SACRAMENTO**

APPENDIX C
SUMMARY OF THE INDENTURE

APPENDIX D
FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX E
PROPOSED FORM OF BOND COUNSEL OPINION

APPENDIX F 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 Underwriters 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, acts as securities depository for the Series 2017 Bonds. The Series 2017 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 each series of the Series 2017 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 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2017 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 2017 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 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all 2017 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 2017 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 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2017 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 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults and proposed amendments to the 2017 Bond documents. For example, Beneficial Owners of 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 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 2017 Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2017 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 2017 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 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2017 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 2017 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 2017 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 2017 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 Underwriters do not take any responsibility for the accuracy thereof.

SECOND SUPPLEMENTAL INDENTURE

between

CITY OF SACRAMENTO

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of March 1, 2017

Relating To

\$_[_____]
CITY OF SACRAMENTO
WATER REVENUE BONDS, SERIES 2017

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

SECOND SUPPLEMENTAL INDENTURE

This SECOND SUPPLEMENTAL INDENTURE, dated as of March 1, 2017 (this “Second 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 Second Supplemental Indenture is supplemental to the Indenture, dated as of March 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 Water Revenue Bonds, Series 2017 (the “Series 2017 Bonds”), in the aggregate principal amount of \$[_____], in order to finance the costs of certain improvements to its Water System (as defined in the Indenture) (the “Series 2017 Project”);

WHEREAS, the execution and delivery of this Second 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 2017 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 Second 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 Second Supplemental Indenture and the execution and delivery of the Series 2017 Bonds, subject to the terms hereof, have been in all respects duly authorized;

NOW, THEREFORE, THIS SECOND 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 2017 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 2017 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 2017 Bonds by the Holders (as defined in the Indenture) 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 2017 Bonds, as follows:

ARTICLE XVI

DEFINITIONS

SECTION 16.01. 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 Second Supplemental Indenture that are given to such terms in Section 1.02 of the Indenture.

ARTICLE XVII

FINDINGS AND DETERMINATIONS

SECTION 17.01. Findings and Determinations. The City hereby finds and determines that the Series 2017 Bonds shall be issued pursuant to Section 3.01 of the Indenture and upon the issuance of the Series 2017 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 17.02. Recital in Bonds. There shall be included in each of the definitive Series 2017 Bonds, and also in each of the temporary Series 2017 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 2017 Bond, and in the issuing of that Series 2017 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 2017 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 2017 Bond attached hereto as Exhibit A.

SECTION 17.03. Effect of Findings and Recital. From and after the issuance of the Series 2017 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 2017 Bonds is at issue.

SECTION 17.04. Series 2017 Bonds Not Participating Bonds. The Series 2017 Bonds are not Participating Bonds under the Indenture.

ARTICLE XVIII

AUTHORIZATION OF SERIES 2017 BONDS

SECTION 18.01. Authorization and Terms of Series 2017 Bonds.

(A) The Series 2017 Bonds in the aggregate principal amount of \$[_____] are hereby authorized to be issued pursuant to the Indenture for the purpose of financing the Series 2017 Project.

(B) A second Series of Bonds to be issued under the Indenture is hereby created. That Series of Bonds shall be known as the “City of Sacramento Water Revenue Bonds, Series 2017.” The Series 2017 Bonds shall be Current Interest Bonds in the aggregate principal amount of \$[_____].

(C) The Series 2017 Bonds shall be issued as fully registered bonds in the denominations of \$5,000 or integral multiples thereof. The Series 2017 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 2017 Bond for each maturity of the Series 2017 Bonds bearing interest at a particular interest rate as set forth below in this Section 18.01 in a denomination corresponding to the total principal amount of the Series 2017 Bonds maturing on such date and bearing interest at such interest rate. Each Series 2017 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 2017 Bonds, or any portion thereof, may thereafter be transferred as set forth in Section 2.10 of the Indenture.

(D) Interest on the Series 2017 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 2017 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 2017 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 2017 Bonds shall be payable on September 1, 2017, 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 2017 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.

SECTION 18.02. Redemption of the Series 2017 Bonds.

(A) Optional Redemption. The Series 2017 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 2017 Bonds maturing on September 1, 20[___] and September 1, 20[___] are subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2017 Bonds, on each date a Mandatory Sinking Account Payment for such Series 2017 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 2017 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 2017 Bonds shall have been optionally redeemed pursuant to Section 18.02(A), the amounts of the remaining Mandatory Sinking Account Payments for such Series 2017 Bonds shall be revised as directed in writing by the City):

Series 2017 Bonds Maturing September 1, 20[___]

<u>Mandatory Sinking Account Payment Date (September 1)</u>	<u>Mandatory Sinking Account Payment</u>
	\$

†

† Final Maturity

Mandatory Sinking Account Payments for the Series 2017 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 2017 Bonds shall have been optionally redeemed pursuant to Section 18.02(A), the amounts of the remaining Mandatory Sinking Account Payments for such Series 2017 Bonds shall be revised as directed in writing by the City):

Series 2017 Bonds Maturing September 1, 20[___]

<u>Mandatory Sinking Account Payment Date (September 1)</u>	<u>Mandatory Sinking Account Payment</u>
	\$

†

† Final Maturity

(C) Selection of Bonds for Redemption. The City shall designate which maturities of any Series 2017 Bonds are to be called for optional redemption pursuant to Section 18.02(A). If less than all Series 2017 Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the Series 2017 Bonds of such maturity date to be redeemed by lot and shall promptly notify the City in writing of the numbers of the Series 2017 Bonds so selected for redemption. For purposes of such selection, Series 2017 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 2017 Bonds shall be provided in accordance with, and subject to, the provisions of Section 4.02 of the Indenture.

SECTION 18.03. Form of Series 2017 Bonds. The Series 2017 Bonds and the certificate of authentication to be executed thereon shall be in substantially the form set forth as Exhibit A to this Second Supplemental Indenture.

SECTION 18.04. Issuance of Series 2017 Bonds. At any time after the execution and delivery of this Second Supplemental Indenture, the City may execute and the Trustee shall authenticate and deliver the Series 2017 Bonds upon the Order of the City.

SECTION 18.05. Application of Proceeds of Series 2017 Bonds. The net proceeds of the sale of the Series 2017 Bonds of \$[_____] (composed of \$[_____] aggregate principal amount, [plus original issue premium of \$[_____]], less an underwriters' 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 2017 Project Fund, a segregated fund established pursuant to Section 18.06.

(B) The Trustee shall deposit the remainder of said proceeds, \$[_____] , in the Series 2017 Costs of Issuance Fund, a segregated fund established pursuant to Section 18.07.

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

SECTION 18.06. Establishment and Application of Series 2017 Project Fund.

(A) The City shall establish and maintain on its books a separate fund designated as the "Series 2017 Project Fund." The moneys accounted for within the Series 2017 Project Fund from the proceeds of the Series 2017 Bonds, and any other moneys accounted for within the Series 2017 Project Fund by the City, shall be used and withdrawn by the City to pay the costs of the Series 2017 Project. The City may invest amounts accounted for within the Series 2017 Project Fund in Investment Securities. All interest, profits, and other income received from the investment of moneys accounted for within the Series 2017 Project Fund shall be recorded to the credit of the Series 2017 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 2017 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 2017 Project Fund and has not been previously paid from the Series 2017 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 2017 Project Fund. The Trustee shall have no duty to review such requisitions.

(D) When the City determines that the Series 2017 Project has been completed, any remaining moneys accounted for within the Series 2017 Project Fund shall be used or transferred by the City in a manner consistent with the Tax Certificate relating to the Series 2017 Bonds.

SECTION 18.07. Establishment and Application of Series 2017 Costs of Issuance Fund.

(A) The Trustee shall establish, maintain, and hold in trust a separate fund designated as the "Series 2017 Costs of Issuance Fund." The moneys deposited in the Series 2017 Costs of Issuance Fund from the proceeds of the Series 2017 Bonds shall be used and withdrawn as directed by the City to pay the Costs of Issuance of the Series 2017 Bonds. All interest, profits, and other income received from the investment of moneys held in the Series 2017 Costs of Issuance Fund shall be deposited in the Series 2017 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 2017 Project Fund, the Revenue Fund, or the Rebate Fund, as applicable.

(B) Before any payment from the Series 2017 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 2017 Costs of Issuance Fund. The Trustee and the City shall retain a record of the Requisitions from the Series 2017 Costs of Issuance Fund.

(C) Any amounts remaining in the Series 2017 Costs of Issuance Fund 180 days after the date of issuance of the Series 2017 Bonds shall be transferred as directed by the City for deposit in the Series 2017 Project Fund, and the Series 2017 Costs of Issuance Fund shall be closed.

SECTION 18.08. 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 2017 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 2017 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 18.08, including seeking mandate or specific performance by court order.

ARTICLE XIX

MISCELLANEOUS PROVISIONS

SECTION 19.01. Terms of Series 2017 Bonds Subject to the Indenture. Except as in this Second Supplemental Indenture expressly provided, every term and condition contained in the Indenture shall apply to this Second Supplemental Indenture and to the Series 2017 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 Second Supplemental Indenture.

This Second 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 19.02. Effective Date of Second Supplemental Indenture. This Second Supplemental Indenture shall take effect upon its execution and delivery.

SECTION 19.03. Execution in Counterparts. This Second 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 Second Supplemental Indenture by their officers thereunto duly authorized as of the day and year first written above.

CITY OF SACRAMENTO

By: _____
John P. Colville, Jr.
Interim City Treasurer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

[FORM OF SERIES 2017 BOND]

No. R-__ \$ _____

**CITY OF SACRAMENTO
WATER REVENUE BOND,
SERIES 2017**

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
September 1, 20__	_____%	[____], 2017	

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, 2017, 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 2017 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 March 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 Water 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 Second Supplemental Indenture thereto, dated as of March 1, 2017, between the City and the Trustee, authorizing the issuance of the City of Sacramento Water Revenue Bonds, Series 2017 (the "Series 2017 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 2017 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 2017 Bonds), the rights of the registered owners of the Bonds (including the Series 2017 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 2017 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 2017 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 2017 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 2017 Bonds) or their interest. The Bonds (including the Series 2017 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 2017 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 2017 Bonds maturing on September 1, 20[___], are subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2017 Bonds, on each date a Mandatory Sinking Account Payment for such Series 2017 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.

The Series 2017 Bonds maturing on September 1, 20[___], are subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2017 Bonds, on each date a Mandatory Sinking Account Payment for such Series 2017 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 2017 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 2017 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: _____
John P. Colville, Jr.
Interim 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 2017 PROJECT FUND REQUISITION

Requisition No. _____

Series 2017 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 March 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 2017 Project Fund created pursuant to Section 18.06 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 2017 Project Fund and has not been previously paid from the Series 2017 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 2017 COSTS OF ISSUANCE FUND REQUISITION

Requisition No. _____

Series 2017 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 March 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 2017 Costs of Issuance Fund created pursuant to Section 18.07 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 2017 Costs of Issuance Fund; and (c) each item has not been previously paid from the Series 2017 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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\$ _____
CITY OF SACRAMENTO
WATER REVENUE BONDS, SERIES 2017

BOND PURCHASE AGREEMENT

_____, 2017

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, INC. (the "Representative"), on behalf of itself and as representative of the other underwriters listed on the signature page below (collectively, the "Underwriters"), hereby offers to enter into this bond purchase agreement with the CITY OF SACRAMENTO, a California municipal corporation (the "City"). Upon the City's acceptance of this offer, this agreement will be binding upon the City and the Underwriters. This offer is made subject to the City's acceptance of this agreement, by the execution and delivery of this agreement to the Representative at or before 11:59 p.m. California time on the date set forth above (the "Effective Date"), and, if not so accepted, will be subject to withdrawal by the Representative upon notice to the City at any time before the City's acceptance. Capitalized terms used but not defined in this agreement have the meanings given them in the Official Statement (defined below in section 1(d)).

The Representative represents to the City that it has been duly authorized to execute this agreement on behalf of the other Underwriters and has been duly authorized to act under this agreement by and on behalf of the other Underwriters.

1. Purchase, Sale, and Delivery of the Series 2017 Bonds.

- (a) Subject to the terms and conditions set forth below, the Underwriters hereby agree to purchase from the City, and the City hereby agrees to sell to the Underwriters, all (but not less than all) of the City's \$_____ aggregate principal amount City of Sacramento Water Revenue Bonds, Series 2017 (the "Series 2017 Bonds") at the aggregate purchase price of \$_____ (consisting of the principal amount of the Series 2017 Bonds plus original-issue [premium][discount] of \$_____, less an underwriters' discount of \$_____).
- (b) The Series 2017 Bonds will be dated their date of issuance and will bear interest at the rates, and mature at the times and in the amounts, as set forth in Schedule I to this agreement. The Series 2017 Bonds are being issued under an Indenture, dated as of March 1, 2013 (the "Master Indenture"), as supplemented by the Second Supplemental Indenture dated as of March 1, 2017 (the "Second Supplemental Indenture"), each between the City and U.S. Bank National Association, as trustee (the

"Trustee"). The Master Indenture, as supplemented from time to time, including as supplemented by the Second Supplemental Indenture, is the "Indenture." The Series 2017 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 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 to, or on deposit in, those funds and accounts, subject to the provision of the Indenture permitting the application of the funds and accounts for the purposes and on the terms and conditions set forth in the Indenture.

- (c) The Underwriters shall make a public offering of the Series 2017 Bonds at prices not in excess of the initial offering price or prices established by the Underwriters and set forth in Schedule I to this agreement. Subsequent to the initial public offering, the Underwriters reserve the right to change the initial offering price or prices as the Underwriters deem necessary in connection with the marketing of the Series 2017 Bonds and to offer and sell the Series 2017 Bonds to certain dealers, unit investment trusts, and money-market funds, certain of which may be sponsored or managed by the Underwriters, at prices lower than the public offering prices or at yields greater than the yields set forth in this agreement. The Underwriters also reserve the right to over-allot or effect transactions that stabilize or maintain the market price of the Series 2017 Bonds at a level above the price that might otherwise prevail in the open market and to discontinue the stabilizing, if commenced, at any time. The Representative shall provide to the City a certificate setting forth the offering prices of the Bonds in substantially the form set forth in Exhibit C.
- (d) In accordance with its resolution adopted on _____, 2017 (the "Resolution"), the Sacramento City Council (1) has authorized the issuance and sale of the Series 2017 Bonds; (2) has approved the form of, and has authorized the execution and delivery of, this agreement, the Indenture, and the Continuing Disclosure Certificate (defined in section 1(f)); (3) has approved the form of, and has authorized the distribution of, the Preliminary Official Statement dated _____, 2017, relating to the Series 2017 Bonds (the "Preliminary Official Statement"); and (4) has authorized the distribution of a final Official Statement, dated _____, 2017 (together with any amendment or supplement, the "Official Statement"). The Official Statement must be in the form of the Preliminary Official Statement with any changes needed to reflect the principal amount, maturity date or dates, interest rates, redemption provisions, and other information relating to the sale of the Series 2017 Bonds, and with any other changes the Representative approves. By signing this agreement, the City confirms that the Preliminary Official Statement has been deemed 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 information the Rule allows to be omitted. The Underwriters' offer to purchase the Series 2017 Bonds is subject to the following condition so that the Underwriters can comply with the rules of the Municipal Securities Rulemaking Board (the "MSRB") and subsection (b)(4) of the Rule: the City must deliver to the Underwriters, within seven business days after the Effective Date, copies of the Official

Statement in such quantity as the Underwriters' may reasonably request plus an electronic copy of the Official Statement in word-searchable portable document format. On or before the Closing Date (defined in section 2), the Representative shall file a copy of the Official Statement with the MSRB.

- (e) The City hereby ratifies the Underwriters' prior use and distribution of the Preliminary Official Statement and the Official Statement (and all information contained in them) in connection with the offering and sale of the Series 2017 Bonds, and the City hereby authorizes the Underwriters' future use of the Preliminary Official Statement and the Official Statement (and all information contained in them) for that purpose.
 - (f) To assist the Underwriters in complying with the Rule, the City will undertake, in accordance with the Continuing Disclosure Certificate dated _____, 2017 (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 the 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 _____, 2017, or at such other time or on such other date as the City and the Representative agree upon, (a) the City shall deliver or cause to be delivered to the Underwriters the Series 2017 Bonds, together with the other documents mentioned in this agreement; and (b) the Underwriters shall accept delivery and pay the purchase price of the Series 2017 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 must be made at the offices of Orrick, Herrington & Sutcliffe LLP, Sacramento, California ("Bond Counsel"), or at such other place the City and the Representative agree upon; the Series 2017 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. By accepting the Underwriters' offer to enter into this agreement, the City represents, warrants, covenants, and agrees with the Underwriters as follows:
- (a) The City is a municipal corporation duly organized and existing under its charter and the Constitution and laws of the State of California (the "State"). The City is empowered to issue the Series 2017 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 agreement, the Series 2017 Bonds, the Indenture, and the Continuing Disclosure Certificate. This agreement, the Series 2017 Bonds, the Indenture, and the Continuing Disclosure Certificate are collectively the "City Documents."
 - (b) On or before the Effective Date, 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 of, and performance of the transactions and obligations

contemplated by this agreement and by the Official Statement, except that the City makes no representation about 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 as required by 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 agreement has been duly executed and delivered by the City and, assuming the due execution and delivery by the Representative, is a legal, valid, and binding obligation of the City, enforceable against the City in accordance with its terms, except that its binding effect and enforceability may be limited (1) by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors' rights generally (including fraudulent-conveyance laws); or (2) by general principles of equity including concepts of materiality, reasonableness, and good faith and fair dealing; or (3) by the possible unavailability of specific performance or injunctive relief, 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 legal, valid, and binding obligations of the City, enforceable against the City in accordance with their terms, except that their binding effect and enforceability may be limited (1) by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors' rights generally (including fraudulent-conveyance laws); or (2) by general principles of equity including concepts of materiality, reasonableness, and good faith and fair dealing; or (3) by the possible unavailability of specific performance or injunctive relief, 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 City's actual knowledge as of the Effective Date, and except as otherwise disclosed in the Official Statement, the adoption of the Resolution; the execution and delivery of the City Documents; the City's compliance with the terms, conditions, or provisions of this agreement, the Resolution, and the City Documents and the consummation of the transactions contemplated in this agreement, the Resolution, and the City Documents 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 in accordance with 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 City's actual knowledge as of the Effective Date, 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 or public board required in connection with the City's execution, delivery, and performance of this agreement, the Series 2017 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, except that the City makes no representation about compliance with the securities or "Blue Sky" laws of the various states of the United States.
- (g) To the City's actual knowledge as of the Effective Date, 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 governmental body, agency or other instrumentality or any court or public board—
 - (1) that seeks to restrain or enjoin the execution, sale, or delivery of the Series 2017 Bonds;
 - (2) that contests or affects in any way the validity of enforceability of the City Documents;
 - (3) that contests in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any related amendment or supplement;
 - (4) that contests the City's powers or authority with respect to the City Documents; or
 - (5) in which an unfavorable decision, ruling, or finding is likely to have a material adverse effect on the City's financial condition or solvency or to affect the validity or enforceability of the City Documents or the City's authority or ability 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 Representative promptly of the institution of any proceedings actually known to it by any governmental body, agency, or other instrumentality or any court or public board 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 Series 2017 Bonds.

- (h) The City shall cooperate with the Underwriters in the qualification of the Series 2017 Bonds for offering and sale and the determination of the eligibility of the Series 2017 Bonds for investment under the laws of such jurisdictions as the Representative designates and shall continue any such qualification in effect so long as required for the distribution of the Series 2017 Bonds by the Underwriters, except 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 for the consequences of failure to comply with, applicable "Blue Sky" laws.

- (i) As of its date and at all times up to and including the Effective Date, the Preliminary Official Statement did not contain, and as of the Effective Date and at all times up to and including the Closing Date, 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) does not and will not contain, any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.
- (j) If between the Effective Date and the date that is 25 days after the end of the underwriting period (as determined in accordance with this section 3(j)) an 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 in it, in the light of the circumstances under which they were made, not misleading, and if the City has actual knowledge of the event, then the City shall notify the Representative of the event. If, in the reasonable opinion of the Representative, 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 Underwriters: a reasonable number of copies of a supplement or amendment to the Official Statement in form and substance reasonably acceptable to the Representative; and, if the event notice is after the Closing Date, such legal opinions, certificates, instruments, and other documents as the Representative may reasonably deem necessary to evidence the truth and accuracy of the supplement or amendment. The term "end of the underwriting period" means the later of the following: the date when the City delivers the Series 2017 Bonds to the Underwriters or the date when the Underwriters no longer retain an unsold balance of the Series 2017 Bonds for sale to the public. The end of the underwriting period is deemed to be the Closing Date unless the Representative notifies the City that it will be a different date, which may not be later than 60 days after the Closing Date. The City shall provide the Representative with such information regarding the City, its current financial condition, and its ongoing operations as the Representative may reasonably request. Any notice delivered in accordance with this section must be delivered in writing to the City at or before the Closing Date.
- (k) If the information in the Official Statement is amended or supplemented in accordance with section 3(j), then at the time of each supplement or amendment and at all times afterward up to and including the date that is 25 days after the end of the underwriting period, the Official Statement so supplemented or amended (including any financial and statistical data) 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 information in it, in light of the circumstances under which it was made, not misleading.
- (l) When the Series 2017 Bonds are issued, authenticated, and delivered in accordance with the Indenture and paid for by the Underwriters as provided for by this agreement, the Series 2017 Bonds will be the City's legally valid and binding obligations, enforceable in accordance with their terms, except as enforceability may be limited (1)

by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors' rights generally (including fraudulent-conveyance laws); or (2) by general principles of equity including concepts of materiality, reasonableness, and good faith and fair dealing; or (3) by the possible unavailability of specific performance or injunctive relief, 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 2017 Bonds will be entitled to the benefits of, and secured by, the Indenture.

- (m) Any certificate signed by a City Representative and delivered in connection with the transactions contemplated by the Official Statement and this agreement will be deemed to be a representation and warranty by the City to the Underwriters as to the statements made in it. As used in this agreement, "City Representative" means the City Manager, the City Treasurer, and any other person designated to act on the City's behalf, with the designation set forth in a resolution of the City Council or in a written certificate delivered to the Trustee and signed on the City's behalf by a City Representative.
- (n) Between the Effective Date and the Closing Date, the City will not have issued any bonds, notes, or other obligations for borrowed money, in each case payable from System Net Revenues, without the Representative's prior written consent except for such borrowing as may be described in or contemplated by the Official Statement.
- (o) The City's Audited Financial Statements for the Fiscal Year ended June 30, 2016, as contained in Appendix A to the Official Statement, fairly and accurately present the financial condition of the Water 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 Water System.
- (p) Since June 30, 2016, except as referred to in or as contemplated by the Official Statement—
 - (1) the City has not, with respect to the Water 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 Water 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 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) The Sacramento City Council approved the major component of the Series 2017 Project, the continued acceleration of the City's water-meter-installation program. Before doing so, the City Council considered and adopted a mitigated negative declaration in accordance with the California Environmental Quality Act ("CEQA"). Then, within five working days after the approval, the City filed a notice of determination with the Sacramento County Clerk/Recorder. As of the Effective Date, no one has challenged the approval, and the time for challenging the approval by judicial appeal, referendum, or otherwise has expired. The balance of the Series 2017 Project consists of several smaller components that by their nature qualify as categorically exempt from CEQA under the CEQA Guidelines (14 Cal. Code Regs., tit. 14, §§ 15301, 15302, 15303):
 - (1) repair or minor alteration of existing public structures, facilities, and mechanical equipment involving negligible or no expansion of use (e.g., meters, pipelines, fire hydrants, gate valves, fluoride equipment, reservoirs, office building);
 - (2) replacement or reconstruction of existing structures and facilities where the new structures will be on the same site and have substantially the same purpose and capacity (e.g., fire hydrants, gate valves, fluoride equipment, backflow-prevention devices); and
 - (3) construction and location of limited numbers of new, small facilities or structures, and installation of small new equipment and facilities in small structures (e.g., pipeline replacement and meter retrofit, new backup engine, new storage building).
4. Conditions to the Underwriters' Obligations. The obligations of the Underwriters under this agreement have been undertaken in reliance on, and are subject to, the City's due performance of its obligations under this agreement and to the accuracy of, and the City's compliance with, the City's representations, warranties, covenants, and agreements in this agreement, in each case on and as of the date of delivery of this agreement and on and as of the Closing Date. The Underwriters' obligations under this agreement are also subject, in the Representative's discretion, 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 Representative, and the City must have adopted, and there must be in full force and effect, such additional resolutions, agreements, opinions, and certificates (including any certificates required by regulations of the Internal Revenue Service to establish the tax-exempt character of interest on the Series 2017 Bonds), which resolutions, agreements, opinions, and certificates must be satisfactory in form and substance to Bond Counsel and the Representative and its counsel, and there must have been taken in connection therewith and in connection with the issuance of the Series 2017 Bonds all such actions as are, in

the opinion of each, necessary in connection with the transactions contemplated hereby;

- (2) the Series 2017 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 in this agreement must be true and complete in all material respects on the Effective Date and on and as of the Closing Date; and
 - (5) the City must have delivered to the Underwriters copies of the Official Statement by the time, and in the quantity, required by section 1(d).
- (b) On or before the Closing Date, the Underwriters must have received the following documents, in each case satisfactory to the Representative:
- (1) This agreement duly executed and delivered by the City and the Representative, the Continuing Disclosure Certificate, and the Second Supplemental Indenture, duly executed and delivered by the City and the Trustee, each with any amendments, modifications, or supplements as may have been agreed to by the Representative.
 - (2) A certified copy of the Master Indenture and the First Supplemental Indenture and a certificate to the effect that those agreements are in full force and effect and have not been modified, amended, or supplemented.
 - (3) The Official Statement, executed on the City's behalf by a City Representative.
 - (4) A copy of the Resolution, 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; that the Resolution was duly adopted at a meeting for which notice was duly given and at which a quorum was present; and that the Resolution has not been amended, modified, supplemented, or rescinded.
 - (5) An opinion of Bond Counsel, dated the Closing Date and addressed to the City, in substantially the form attached as Appendix E to the Official Statement, together with a letter to the Representative to the effect that the Representative may rely on the opinion as if it were addressed to the Representative.
 - (6) A supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Representative, substantially in the form attached to this agreement as Exhibit A.
 - (7) The opinion of the Sacramento City Attorney or his designee (the "City Attorney"), dated the Closing Date and addressed to the Representative, to the effect that—

- (A) the City is a municipal corporation duly organized and validly existing under its charter and the Constitution and the laws of the State;
- (B) the City has duly approved the Official Statement;
- (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 fraudulent-conveyance laws); or (ii) by general principles of equity including concepts of materiality, reasonableness, and good faith and fair dealing; or (iii) by the possible unavailability of specific performance or injunctive relief, 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, but 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 2017 Bonds;
- (F) to the actual knowledge of the City Attorney as of the date of the opinion, the adoption of the Resolution and the execution and delivery of the Series 2017 Bonds, the Indenture, and this agreement, and the City's compliance with their provisions, under the circumstances contemplated by them, 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 is subject; and
- (G) except as described in the Official Statement, to the actual knowledge of the City Attorney 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 governmental body, agency, or other instrumentality, any court, or any public board (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 Water System or on the transactions contemplated by this 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.

- (8) The opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, disclosure counsel to the City ("Disclosure Counsel"), dated the Closing Date and addressed to the Representative, in substantially the form attached to this agreement as Exhibit B.
- (9) The opinion of counsel to the Trustee, dated the Closing Date and addressed to the City and the Representative, 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 as enforceability 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 enforceability 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 to preserve the Trustee's authority to perform a trust business (all of which routine filings the Trustee's 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 2017 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 2017 Bonds and the Indenture.
- (10) A certificate, dated the Closing Date, signed by the appropriate City representative or representatives and in form and substance satisfactory to the Representative, to the effect that, to the current actual knowledge of the representative or representatives as of the Closing Date—

- (A) the City's representations and warranties in this 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 with, and is then in compliance with, all agreements and has satisfied all conditions on its part to be observed or satisfied under each City Document at 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 Water System, whether or not arising from transactions in the ordinary course of business, as described in the Official Statement; and
 - (E) the City representatives have examined the Official Statement, and in their 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 in it, in light of the circumstances under which they were made, not misleading.
- (11) A certificate, dated the Closing Date, signed by a duly authorized officer of the Trustee, satisfactory in form and substance to the Representative, 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 the Trustee's compliance with its obligations under it 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 under 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) the Trustee has not been served with any action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any governmental body, agency, or other instrumentality, any court, or any public board, and, to the best of the authorized officer's knowledge after reasonable investigation, no such action is threatened against the Trustee 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 2017 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, in which 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 Series 2017 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 Series 2017 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 Series 2017 Bonds to the purposes specified in the Indenture.

- (12) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Indenture.
- (13) A tax certificate for the Series 2017 Bonds in form satisfactory to Bond Counsel and the Representative.
- (14) Evidence that the ratings on the Series 2017 Bonds as set forth in the Official Statement are in full force and effect as of the Closing Date.
- (15) An opinion of Nixon Peabody LLP, Underwriters' Counsel, dated the Closing Date and addressed to the Representative, in form and substance acceptable to the Underwriters.
- (16) Such additional legal opinions, certificates, proceedings, instruments, insurance policies or evidences thereof, and other documents as the Representative, Disclosure Counsel, or Bond Counsel may reasonably request to evidence the truth and accuracy, as of the Effective Date and as of the Closing Date, of the representations of the City of the statements and information contained in the Official Statement, and the due performance or satisfaction by the City at or before the Closing Date of all agreements then to be performed and all conditions then to be satisfied by the City in connection with the transactions contemplated by this agreement and the Indenture.

5. Termination of Agreement.

- (a) If the City cannot satisfy the conditions to the Underwriters' obligations set forth in section 4, then this agreement will terminate with the effect stated in section 5(c).
- (b) The Representative may terminate this agreement, with the effect stated in section 5(c), at any time after the Effective Date and at or before the Closing by notifying the City in writing of its election so to do if, in the reasonable judgment of the Representative, between the Effective Date and the Closing Date, the marketability of

the Series 2017 Bonds at the initial offering prices set forth in the Official Statement has been materially adversely affected by 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 or the legislature of any state having jurisdiction of the subject matter, or legislation pending in the Congress of the United States is amended; or legislation is recommended to the Congress of the United States 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 of the United States; or legislation is favorably reported for passage to either House of the Congress of the United States 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 Representative, may have the purpose or effect, directly or indirectly, of affecting the tax status of the Series 2017 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 2017 Bonds, or the Series 2017 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 State 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 2017 Bonds or obligations of the general character of the Series 2017 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 Underwriters.
 - (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 2017 Bonds, or the issuance, offering, or sale of the Series 2017 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 that rates the Series 2017 Bonds or any obligations of the City secured by System Net Revenues on a parity with Series 2017 Bonds downgrades, suspends, or withdraws (or announces its intent to downgrade, suspend, or withdraw) any rating of the Series 2017 Bonds or the parity obligations, or issues any negative qualification with respect to the Series 2017 Bonds or the parity obligations (such as being placed on "credit watch" with negative implications or "negative outlook" or any similar qualification).
 - (9) Litigation that seeks to restrain or enjoin the issuance, sale, or delivery of the Bonds, or that in any way contests or affects any authority for, or the validity of, the proceedings authorizing and approving the Resolution, the City Documents, or the existence or powers of the City with respect to its obligations under the City Documents, is instituted on or before, or is pending at the time of, the Closing.
 - (10) Any event occurs, or information becomes known that, in the Representative's reasonable judgment, 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 in it or necessary to make the statements in it, in the light of the circumstances under which they were made, not misleading.
- (c) If this agreement is terminated, then the parties will have no obligations to each other except as provided in section 6.

6. Expenses.

- (a) The Underwriters shall pay all expenses they incur in connection with the offering of the Series 2017 Bonds, including (1) the fees and disbursements of their counsel and (2) the cost of qualifying the Series 2017 Bonds for sale in various states chosen by the Underwriters and the cost of preparing or printing any "Blue Sky" or legal investment memoranda to be used in connection with the sale. If the Underwriters purchase the Series 2017 Bonds, then the Underwriters shall pay costs and disbursements they incur in connection with the transactions contemplated in this agreement, including the costs of travel by the Underwriters' personnel, the fees of the California Debt and Investment Advisory Commission, and related out-of-pocket expenses (which may be included as an expense component of the underwriters' discount).
- (b) Whether or not the Underwriters purchase the Series 2017 Bonds, the Underwriters will not be obligated to pay, and the City shall pay, all expenses incident to the City's performance of its obligations under this agreement (except as set forth in section 6(a)), including (1) the fees and expenses of Bond Counsel and Disclosure Counsel; (2) charges made by rating agencies for the ratings of the Series 2017 Bonds; (3) the fees and expenses of the City staff designated to work on the issuance and sale of the Series 2017 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 agreement, all notices, demands, and formal actions under this agreement must be in writing and given by first-class mail (postage prepaid) or by personal delivery to the City and the Representative at the following addresses:

City of Sacramento
915 "I" Street
Historic City Hall, Third Floor
Sacramento, California 95814
Attn: City Treasurer

Merrill Lynch, Pierce, Fenner & Smith,
Incorporated
333 South Hope Street, Suite 2310
Los Angeles, California 90071
Attn: Jeff Bower

- (b) This agreement inures to the benefit of, and is binding upon, the City and the Underwriters and their successors and assigns.
- (c) All of the representations, warranties, and covenants of the City and the Underwriters in this agreement will remain operative and in full effect regardless of (1) any investigation made by or on behalf of the Underwriters or the City, (2) delivery of any payment for the Series 2017 Bonds under this agreement, or (3) any termination of this agreement other than termination under section 5.
- (d) Section headings in this agreement are for reference only. They are not a part of this agreement and are not to be used when interpreting it.

- (e) If any court with jurisdiction rules that any non-material provision of this agreement is invalid, inoperative, or unenforceable, then the rest of this agreement remains valid, operative, and enforceable.
 - (f) The City and the Representative may sign this agreement counterparts, each of which will be considered an original, but all of which will constitute the same document.
 - (g) This agreement is governed by, and is to be construed in accordance with, the laws of the State.
 - (h) As used in this agreement, "including" means "including but not limited to."
8. Relationship of the Parties. The City and the Underwriters acknowledge and agree (a) that the primary role of the Underwriters, as underwriters, is to purchase securities from the City, in an arm's-length commercial transaction between the City and the Underwriters, and then to resell the securities to investors; (b) that the Underwriters have financial and other interests that differ from those of the City; (c) the Underwriters are not acting as municipal advisors, financial advisors, or fiduciaries to the City and have not assumed any advisory or fiduciary responsibility to the City with respect to the transaction contemplated by this agreement and the discussions, undertakings, and procedures leading to it (irrespective of whether the Underwriters have provided other services or are currently providing other services to the City on other matters); (d) the only contractual obligations the Underwriters have to the City with respect to the transaction contemplated by this agreement are expressly set forth in this agreement; and (e) the City and the Underwriters 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 limits the Underwriters' obligation of fair dealing under MSRB Rule G-17.
9. Entire Agreement. This 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 and may be amended, supplemented, or modified only by a writing signed by the City and the Representative.

(Signature Page Follows)

Very truly yours,

MERRILL LYNCH, PIERCE, FENNER & SMITH,
INCORPORATED

SIEBERT CISNEROS SHANK & CO., LLC

By: _____

MERRILL LYNCH, PIERCE, FENNER &
SMITH, INCORPORATED, for itself and as
Representative of the Underwriters

Title:

Dated: _____, 2017

Accepted By:

CITY OF SACRAMENTO, CALIFORNIA

By: _____

_____, City Treasurer

Dated: _____, 2017

SCHEDULE I

\$_____

CITY OF SACRAMENTO
WATER REVENUE BONDS, SERIES 2017

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

\$_____ % 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 2017 Bonds maturing on and after September 1, 20__, are subject to redemption before their stated maturities, at the City's option, 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 to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Redemption. The Series 2017 Bonds maturing on September 1, 20__, are also subject to mandatory redemption from Mandatory Sinking Account Payments for those Series 2017 Bonds on each September 1 on and after September 1, 20__, at a redemption price equal to the principal amount of the Series 2017 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 2017 Bonds on the dates set forth below (except that if any such Series 2017 Bonds are optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Account Payments for those Series 2017 Bonds will be revised as directed by the City):

<u>Mandatory Sinking Account Payment Date (September 1)</u>	<u>Mandatory Sinking Account Payment</u>
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* Final Maturity

The Series 2017 Bonds maturing on September 1, 20__, are also subject to mandatory redemption from Mandatory Sinking Account Payments for those Series 2017 Bonds on each September 1 on and after September 1, 20__, at a redemption price equal to the principal amount of the Series 2017 Bonds to be redeemed plus accrued interest, if any, to the redemption date, without premium. The Mandatory Sinking Account Payments will be sufficient to redeem (or pay at maturity) the following principal amounts of those Series 2017 Bonds on the dates set forth below (except that if any Series 2017 Bonds are optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Account Payments for the Series 2017 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, Inc.
as representative of the Underwriters
Los Angeles, California

City of Sacramento
Water Revenue Bonds, Series 2017
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you, as Underwriters, pursuant to Section 4(b)(5) of the Bond Purchase Agreement, dated _____, 2017 (the "Purchase Contract"), between you and the City of Sacramento (the "City"), providing for the purchase of \$_____ principal amount of City of Sacramento Water Revenue Bonds, Series 2017 (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of March 1, 2013 (the "Original Indenture"), as supplemented by a Second Supplemental Indenture, dated as of March 1, 2017 (the "Second 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 _____, 2017 (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 2017 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,
as representative of the Underwriters
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 Water Revenue Bonds, Series 2017 (the "Bonds"), issued pursuant to an Indenture, dated as of March 1, 2013 (the "Original Indenture"), as supplemented by a Second Supplemental Indenture, dated as of March 1, 2017 (the "Second 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 "Representative"), on behalf of itself and as representative of the other underwriters listed therein (collectively, the "Underwriters") pursuant to the Bond Purchase Agreement, dated _____, 2017 (the "Purchase Agreement"), between the City and the Underwriters. 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 _____, 2017, approving the issuance of the Bonds and related matters;
- (b) the Preliminary Official Statement related to the Bonds, dated _____, 2017, and an executed copy of the Official Statement related to the Bonds, dated _____, 2017 (the "Official Statement");
- (c) an executed copy of the Indenture; and
- (d) an executed copy of the Purchase Agreement 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. Unless otherwise indicated, capitalized terms used herein have the respective meanings given to such terms in the Official Statement.

We are not passing upon do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement or the Official Statement and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements. During the course of serving as Disclosure Counsel, we participated in conferences with representatives of the City, Bond Counsel, the Underwriters, counsel to the Underwriters, the Municipal Advisor to the City and others, during which the contents of the Preliminary Official Statement and the Official Statement and related matters were discussed. The statements made and the information contained in the Preliminary Official Statement and the Official Statement were either provided by or reviewed on numerous occasions for their accuracy and completeness by the aforementioned representatives of the City. Our services did not include financial or other non-legal advice.

Based upon our participation in the above-mentioned conferences, and in reliance thereon, on oral and written statements and representations of the City and others, and on other records and documents, letters, certificates and opinions described above which we have examined 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 the (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 Appendices A, B, C, D, E and F 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) 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 Appendices A, B, C, D, E and F 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.

By acceptance of this letter you acknowledge that the preceding paragraph is neither a legal opinion nor a guarantee regarding the Preliminary Official Statement or the Official Statement; rather it is a statement of negative assurance regarding factual information that did not come to the attention of attorneys in our firm working on this matter during the limited activities we performed as Disclosure Counsel. Further, in accepting this letter the City recognizes and acknowledges that (i) the scope of those activities performed by us were inherently limited and do not encompass all activities that the issuer may be responsible to undertake in preparing the

Preliminary Official Statement and the Official Statement, (ii) those activities performed by us relied substantially on representations, warranties certifications and opinions made by representatives of the City and others, and are otherwise subject to the matters set forth in this letter, and (iii) while such statements of negative assurance are customarily given to underwriters of municipal bonds to assist them in discharging their responsibilities under federal securities laws, the responsibilities of the City under those laws may differ from those of underwriters in material respects, and the preceding paragraph may not serve the same purpose or provide the same utility to the City as it would to underwriters.

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 as of its date and as of the date of the Purchase Contract and the 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 Preliminary Official Statement or 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 Underwriters in connection with the Bonds or by virtue of this letter. This letter is delivered to you as Representative of the Underwriters, is solely for the benefit of the Underwriters as the underwriters 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,

EXHIBIT C

ISSUE PRICE CERTIFICATE OF THE REPRESENTATIVE

This Certificate is furnished by Merrill Lynch, Pierce, Fenner & Smith Incorporated as representative of the underwriters (the "Underwriter") in connection with the sale and issuance by City of Sacramento (the "Issuer") of its \$_____ aggregate principal amount of City of Sacramento Water Revenue Bonds, Series 2017 (the "Bonds") issued [_____, 2017], and the Underwriter hereby certifies and represents the following, based upon information available to us:

1. Based on our assessment of the then prevailing market conditions, the Underwriter reasonably expected when it agreed to purchase the Bonds (the "Sale Date") that the first prices at which at least 10% of each maturity of the Bonds would be sold by the Underwriter to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (the "Public") would be prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, those listed for each maturity on Schedule A hereto (the "Initial Offering Prices").
2. All of the Bonds have actually been offered to the Public in a bona fide public offering at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, the Initial Offering Prices.
3. The first price, or yield in the case of obligations sold on a yield basis, at which ten percent (10%) of each maturity of the Bonds has been sold to the Public was at a price not higher than, or, in the case of obligations sold on a yield basis, at a yield not lower than, the Initial Offering Prices [except for the Bonds with the following maturities:].
4. The Underwriter had no reason to believe that any of the Initial Offering Prices of the Bonds exceeded the expected fair market value of the Bonds as of the Sale Date.

We understand that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and by Orrick, Herrington & Sutcliffe LLP, in connection with rendering its opinion to the Issuer that the interest on the Bonds is not includable in gross income of the owners thereof for federal income tax purposes. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned's interpretation of any laws; in particular the regulations under the Internal Revenue Code of 1986, or the application of any laws to these facts. The certifications contained herein are not necessarily based on personal knowledge, but may instead be based on either inquiry deemed adequate by the undersigned or institutional knowledge (or both) regarding the matters set forth herein. Although certain information furnished in this Certificate has been derived from other purchasers, bond houses and brokers and cannot be independently verified by us, we have no reason to believe it to be untrue in any material respect.

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED,
as Representative of the Underwriters

By: _____
Jeff Bower
Managing Director

Dated: _____

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate"), dated _____, 2017, for reference, is executed and delivered by the CITY OF SACRAMENTO, a California municipal corporation (the "City"), in connection with the issuance of its Water Revenue Bonds, Series 2017 (the "Series 2017 Bonds"). The Series 2017 Bonds are being issued under an Indenture dated as of March 1, 2013, as supplemented by the First Supplement Indenture dated March 1, 2013, and the Second Supplemental Indenture dated as of March 1, 2017, each between the City and U.S. Bank National Association, as trustee (together, the "Indenture"). In connection with the Series 2017 Bonds, the City hereby covenants as follows:

1. Purpose of this Disclosure Certificate. The City has executed and delivered this Disclosure Certificate for the benefit of the Holders and Beneficial Owners of the Series 2017 Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "SEC").
2. Definitions. In addition to the definitions set forth above or in the Indenture, which apply to any capitalized term used in this 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 in accordance with, and as described in, sections 3 and 4 of this 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 any other electronic system designated by the MSRB as an official repository for information on municipal bonds.
 - "Listed Event" means any of the events listed in section 5(a) of this Disclosure Certificate.
 - "MSRB" means the Municipal Securities Rulemaking Board.
 - "Participating Underwriters" means the underwriters of the Series 2017 Bonds listed, as required by the Rule, on the cover page of the Official Statement for the offering of the Series 2017 Bonds.
 - "Rule" means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as amended from time to time.
 - "State" means the State of California.

3. Provision of Annual Reports.

- (a) The City shall provide to the MSRB, through the EMMA System, an annual report that complies with section 4 of this Disclosure Certificate (the "Annual Report"). The Annual Report must be in an electronic format and accompanied by identifying information, all as prescribed by the MSRB; 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 this Disclosure Certificate, except that the City's audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required below for the filing of the Annual Report if they are not available by that date. The City shall provide the Annual Report not later than the end of the ninth month after the end of the City's Fiscal Year, beginning with the Annual Report for the 2016-17 Fiscal Year. As of the date of this Disclosure Certificate, the City's Fiscal Year begins on July 1 and ends on the following June 30. If the City's Fiscal Year changes, then the City shall give notice of the change in the same manner as for a Listed Event under section 5(c).
- (b) If the City is unable to provide an Annual Report to the MSRB by the date required in section 3(a), the City shall send to the MSRB a notice in substantially the form attached to this Disclosure Certificate as Exhibit A.

4. Content of Annual Reports. The City's Annual Report must contain the CUSIP numbers of the Series 2017 Bonds and must 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 under section 3(a), then the Annual Report must contain unaudited financial statements in a format similar to the financial statements in the final Official Statement, and the audited financial statements must be filed in the same manner as the Annual Report when they become available.
- (b) Revisions of the following tables in the Official Statement for the Series 2017 Bonds, dated _____, 2017, to reflect actual results of the most recently completed Fiscal Year (projections need not be revised):
 - (1) Table 2 – Water Production by Source
 - (2) Table 5 – Number of Connections by User Type
 - (3) Table 6 – Largest Users by Service Charge Revenues
 - (4) Table 8 – Selected Monthly Rates

- (5) Table 9 – Uncollected Water System Charges
- (6) Table 12 – Summary of Projected Operating Results (revised to show actual results of the most recently completed Fiscal Year; projections of future Fiscal Years do not have to be revised or included in Annual Report)

Any or all of the items listed in this section 4(b) 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 SEC, 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 must clearly identify others document included by reference.

5. Reporting of Significant Events.

- (a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2017 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.
 - (9) Bankruptcy, insolvency, receivership, or similar event of the obligated person. An event identified in this section 5(a)(9) is considered to occur when any of the following occurs: the appointment of a receiver, fiscal agent, or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, 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 obligated person.

- (b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2017 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 2017 Bonds or other material events affecting the tax status of the Series 2017 Bonds.
 - (2) Modifications to rights of Holders of the Series 2017 Bonds.
 - (3) Optional, unscheduled, or contingent bond calls.
 - (4) Release, substitution, or sale of property securing repayment of the Series 2017 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 in accordance with its terms.
 - (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 determine, as soon as possible, whether the 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 the occurrence with EMMA in a timely manner not more than 10 business days after the event.
6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate terminate (a) upon the legal defeasance, prior redemption, or payment in full of all of the Series 2017 Bonds; or (b) if the City ceases, in the opinion of nationally recognized bond counsel, to be an "obligated person" (within the meaning of the Rule) with respect to the Series 2017 Bonds, or the Series 2017 Bonds otherwise cease to be subject to the requirements of the Rule. If termination occurs before the final maturity of

the Series 2017 Bonds, the City shall give notice of the termination in the same manner as it gives notice for a Listed Event under section 5(c).

7. Amendment; Waiver. Notwithstanding any other provision of this 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 section 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 2017 Bonds or of the type of business conducted.
 - (b) The undertaking, as amended or taking into account the waiver, would have complied, in the opinion of nationally recognized bond counsel, with the requirements of the Rule at the time of the original issuance of the Series 2017 Bonds, after taking into account any amendments or interpretations of the Rule as well as any change in circumstances.
 - (c) The amendment or waiver either (1) is approved by the Holders of the Series 2017 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 2017 Bonds.

If a provision of this Disclosure Certificate is amended or waived, the City shall describe the amendment or waiver in the next Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, for a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if an amendment relates to the accounting principles to be followed in preparing financial statements, then the City shall give notice of the 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.

8. Additional Information. This Disclosure Certificate does not prevent the City (a) from disseminating any other information, using the means of dissemination set forth in this 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 this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that specifically required by this Disclosure Certificate, the City will not be obligated by this

Disclosure Certificate to update the information or include it in any future Annual Report or notice of occurrence of a Listed Event.

9. Default. If the City fails to comply with any provision of the Disclosure Certificate, any Participating Underwriter or any Holder or Beneficial Owner of the Series 2017 Bonds may take any actions that are necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate is not an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate if the City fails to comply with this Disclosure Certificate is an action to compel performance.
10. Beneficiaries. This Disclosure Certificate inures solely to the benefit of the City, the Participating Underwriters, and the Holders and Beneficial Owners from time to time of the Series 2017 Bonds, and it creates no rights in any other person or entity.

(Signature Page Follows)

CITY OF SACRAMENTO, CALIFORNIA

By: _____

John P. Colville, Jr.
Interim City Treasurer

Dated: _____, 2017

EXHIBIT A
Continuing Disclosure Certificate
City of Sacramento Water Revenue Bonds, Series 2017

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Sacramento, California

Name of Issue: \$_____ Water Revenue Bonds, Series 2017 (the "Series 2017 Bonds")

Date of Issuance: _____, 2017

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 March 1, 2013, as supplemented by the First Supplemental Indenture dated as of March 1, 2013, and the Second Supplemental Indenture dated as of _____ 1, 2017, each between the City and U.S. Bank National Association, as trustee (together, the "Indenture"). The City anticipates that the Annual Report will be filed by _____, 20__.

Dated: _____, 20__

CITY OF SACRAMENTO, CALIFORNIA

By: _____
City Treasurer