

Description of Documents Being Approved and Terms Used

Bond Purchase Contract- Is a contract between the Stockton Public Financing Authority and the Underwriter that provides the terms and conditions under which the underwriter will purchase the Series 2018 Bonds.

Continuing Disclosure Certificate - Is required under Securities and Exchange Commission Rule 15c2-12 ("Rule") and is a written agreement issued in connection with the issuance of bonds requiring the City to provide annual reports (containing certain financial or operating data relating to the City's water system) and to provide notice of certain events required by the Rule.

Debt Service Coverage Ratio (DSC)- Is the measure of an agency's ability to have sufficient resources to pay its debt. This is a ratio of annual net system revenues to debt service. Bond covenants typically require a specific level of DSC to be maintained by the borrower. A ratio of 1.00x means that annual net system revenues are equal to annual debt service. For the City's Water Utility System, the covenant is set at 1.15x for the refunding bonds meaning that net system revenues must be at least 1.15x or 115% of annual debt service.

Installment Purchase Contract – Is a contract between the City and the Stockton Public Finance Authority and provides for installment payments to be made by the City from the pledged Water Fund revenues to the Authority for debt service on the Series 2018 Bonds

Net Present Value- Presents actual annual cash flow savings discounted to a current value

Net Present Value Savings- Generally net present value savings in excess of 3.00% are considered significant. The Government Finance Officers Association, in their best practices white paper titled "Analyzing and Issuing Refunding Bonds" from February 2011, reports that "one test often used by issuers to assess the appropriateness of a refunding is the requirement specifying the achievement of a minimum net present value (NPV) savings. A common threshold is that the savings (net of all issuance costs and any cash contribution to the refunding), as a percentage of the refunding bonds exceeds 3-5%." The City Debt Policy uses 3% NPV savings as a guideline.

Not-To-Exceed Amount- The City Council and Authority are being asked to approve the issuance in an amount "not-to-exceed" \$165,000,000. The amount of issuance is currently estimated at a par amount of \$143,505,000, however, sizing may differ due to investor preference. The tradeoff is higher interest rates with a lower issue size (premium pricing) or lower interest rates with a higher issue size (discount pricing). The overall goal is to market to the entire range of buyers and demand will determine the final interest rates and yields with the goal to maximize refunding savings.

Official Statement- Is a document used by the financial community to make investment decisions. It describes the essential terms of the bonds, including whether and on what terms the bonds can be redeemed prior to maturity the sources pledged to repay the bonds, the issuer's covenants for the benefit of investors and risk associated with the investment. It also contains information about the City's Water system including financial and operating data.

Preliminary Official Statement ("POS")- The POS is the form of the Official Statement that must be approved by the issuers governing board. It is used to market the bonds prior to final sale and determination of final rates and sizing, which will be included in the Final Official Statement prepared after the sale and closing of the bonds (typically a two-week period).