

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2018**NEW ISSUE - FULL BOOK-ENTRY****RATINGS: (See “RATINGS”)**

\$____,____,000*
STOCKTON PUBLIC FINANCING AUTHORITY
WATER REVENUE REFUNDING BONDS,
SERIES 2018A
(Green Bonds)

Dated: Date of Delivery**Due: October 1, as shown on inside front cover**

*This cover page contains information for quick reference only. It is **not** a complete summary of the 2018 Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision. See “CERTAIN RISKS TO BONDOWNERS” for a discussion of certain factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the 2018 Bonds.*

This Stockton Public Financing Authority (the “Authority”) is issuing \$____,____,000* principal amount of Stockton Public Financing Authority Water Revenue Refunding Bonds, Series 2018A (the “2018 Bonds”) to provide funds which, together with certain other available funds, will be used to: (i) refund all of the \$4,030,000 outstanding obligations of the City of Stockton (the “City”) under California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2002A (the “Refunded 2002 Bonds”), all of the \$19,055,000 outstanding principal amount of Stockton Public Financing Authority 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Projects) (the “Refunded 2005 Bonds”), and all of the \$146,725,000 outstanding principal amount of Stockton Public Financing Authority Water Revenue Bonds, Taxable Build America Bonds, Series 2009B (Delta Water Supply Project) (the “Refunded 2009B Bonds”); (ii) [purchase a municipal bond insurance policy and a debt service reserve fund surety policy as security for the 2018 Bonds; and (iii)] pay certain costs associated with the issuance of the 2018 Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.” The 2018 Bonds are issued pursuant to the terms and conditions of the 2018 Indenture dated as of November 1, 2018 (the “2018 Indenture”) by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

The 2018 Bonds are limited obligations of the Authority payable solely from installment payments (the “2018 Installment Payments”) to be made by the City under a 2018 Installment Purchase Contract, dated as of November 1, 2018 (the “2018 Installment Purchase Contract”), by and between the Authority, and the City and certain amounts held under the 2018 Indenture. As security for the payment of the 2018 Installment Payments, the City has pledged revenues derived from the operation of the Water System remaining after the payment of operation and maintenance costs and the installment payments securing the \$54,000,000 outstanding principal amount of Stockton Public Financing Authority Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “Available Revenues”). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS” and “–Senior Obligations.”

The 2018 Bonds will mature on the dates shown on the inside front cover page and, bear interest at the fixed rates set forth on the inside cover page. Interest on the 2018 Bonds will be payable on each April 1 and October 1, commencing [April 1, 2019]. **The 2018 Bonds are subject to optional and**

mandatory redemption prior to their respective maturities. See “THE 2018 BONDS—Redemption Provisions.”

The 2018 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. When delivered, the 2018 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2018 Bonds. So long as Cede & Co. is the registered owner of the 2018 Bonds, payment of principal and Redemption Price of, and interest on the 2018 Bonds will be made to Cede & Co. Purchasers will not receive 2018 Bonds representing their interest in the 2018 Bonds. Individual purchases of the 2018 Bonds will be made in book-entry form only. See APPENDIX E—“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

[The scheduled payment of principal of and interest on the 2018 Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the 2018 Bonds by _____. See “BOND INSURANCE” and APPENDIX G—SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”]

THE 2018 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM 2018 INSTALLMENT PAYMENTS MADE BY THE CITY AND CERTAIN MONEYS HELD UNDER THE INDENTURE. THE 2018 BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY POLITICAL SUBDIVISION THEREOF, AND SHALL BE PAYABLE SOLELY FROM THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2018 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM AVAILABLE REVENUES OF THE WATER SYSTEM AS PROVIDED IN THE INSTALLMENT PURCHASE CONTRACT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL AND REDEMPTION PRICE OF, OR INTEREST ON THE 2018 BONDS. THE AUTHORITY HAS NO TAXING POWER. THE ISSUANCE OF THE 2018 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE AUTHORITY, THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE 2018 BONDS. THE 2018 BONDS AND THE 2018 INSTALLMENT PAYMENTS ARE NOT PAYABLE FROM THE GENERAL FUND OF THE CITY.

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In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, 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 2018 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 2018 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. 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 2018 Bonds. See “TAX MATTERS.”

The 2018 Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and certain other conditions. Del Rio Advisors, LLC, Modesto, California is

serving as municipal advisor to the Authority and the City in connection with the issuance of the 2018 Bonds. Certain legal matters will be passed on for the Authority and the City by the City Attorney and by Schiff Hardin LLP, San Francisco, California, Disclosure Counsel to the City, and for the Underwriters by Stradling Yocca Carlson & Rauth, Sacramento, California, Underwriters' Counsel. It is anticipated that the 2018 Bonds will be available for delivery in book-entry only form through the facilities of DTC on or about November __, 2018.

Dated: _____, 2018.

* Preliminary, subject to change.

\$ __, __, 000*

STOCKTON PUBLIC FINANCING AUTHORITY
WATER REVENUE REFUNDING BONDS,
SERIES 2018A
(Green Bonds)

\$ __, __, 000 Serial 2018 Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP No.</u> [†]
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* Preliminary, subject to change.

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No dealer, broker, salesperson or other person has been authorized by the Authority, the City, or the Underwriters to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

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 2018 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the 2018 Bonds. Statements contained in this Official Statement which 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 set forth herein has been obtained from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor shall it be construed as a representation of such by the Authority, the City, or the Underwriters. The information and expressions of opinion stated herein are subject to change without notice; and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or in the condition of the Water System, since the date hereof.

The summaries and references to the 2018 Indenture, the 2018 Installment Purchase Contract, the Act and to other statutes and documents referred to herein do not purport to be comprehensive or definitive and are qualified in their entireties by reference to each such statute and document. This Official Statement including any amendment or supplement hereto is intended to be deposited with one or more information repositories.

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 part of, its 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.

In connection with the offering of the 2018 Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the 2018 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2018 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

The 2018 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such act. The 2018 Bonds have not been registered or qualified under the securities laws of any state.

The City maintains a website. Unless specifically indicated otherwise, the information presented on that website is **not** incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2018 Bonds.

[Bond Insurer disclaimer – To Come]

Any statement involving any forecast or matter of opinion or estimates, whether or not expressly stated, is intended solely as such and not as a representation of fact. Certain statements included or incorporated by reference in this Official Statement constitute “forward looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended (the “Securities Act”). Such forward-looking statements are generally identified by use of the words “plan,” “project,” “expect,” “estimate,” “budget” or other similar words. Such forward looking statements refer to the achievement of certain results or other expectations or performance which involve known and unknown risks, uncertainties and other factors. These risks, uncertainties and other factors may cause actual results, performance or achievements to be materially different from any projected results, performance or achievements described or implied by such forward looking statements. The City does not plan to issue updates or revisions to such forward looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward looking statements.

**STOCKTON PUBLIC FINANCING AUTHORITY
CHAIR AND BOARD OF DIRECTORS
AND
CITY COUNCIL
CITY OF STOCKTON**

**CHAIR AND BOARD OF DIRECTORS
AND MAYOR AND CITY COUNCIL**

Michael Tubbs	<i>Chair and Mayor</i>
Elbert H. Holman, Jr.	<i>Member and Vice Mayor, District 1</i>
Susan Lofhtus	<i>Member and Councilmember District 3</i>
Daniel Wright	<i>Member and Councilmember, District 2</i>
Susan Lenz	<i>Member and Councilmember, District 4</i>
Christine Fugazi	<i>Member and Councilmember, District 5</i>
Jesus Andrade	<i>Member and Councilmember, District 6</i>

CITY STAFF

Kurt O. Wilson, *City Manager*
John Luebberke, *City Attorney*
Matt Paulin, *Chief Financial Officer*
John Abrew, *Director of Municipal Utilities*
C. Mel Lytle, Ph.D., *Deputy City Manager and Acting Deputy Director of Water Resources*
Minnie Moreno, *Municipal Utilities Finance Officer*
Kevin Beltz, *Program Manager II-Debt and Treasury*
Christian Clegg, *Interim City Clerk*

SPECIAL SERVICES

Orrick, Herrington & Sutcliffe LLP San Francisco, California <i>Bond Counsel</i>	Schiff Hardin LLP San Francisco, California <i>Disclosure Counsel</i>
Del Rio Advisors, LLC Modesto, California <i>Municipal Advisor</i>	HDR Engineering Inc. Bellevue, Washington <i>Rate Consultant</i>
MUFG Union Bank, N.A. San Francisco, California <i>Escrow Agent for the Refunded 2002 Bonds</i>	Wells Fargo Bank, National Association San Francisco, California <i>Trustee and Escrow Agent for the Refunded 2005 Bonds and Refunded 2009B Bonds</i>

TABLE OF CONTENTS

Exhibit 4

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	Risk Management and	
General; Purpose	1	Insurance	24
Security for the 2018 Bonds	2	Limitations on Remedies	24
Bond Insurance	2	Loss of Tax Exemption on the	
[Reserve Fund].....	3	2018 Bonds	25
Outstanding Senior Obligations	3	Risk of Tax Audit	25
Continuing Disclosure	3	Secondary Market.....	25
Bondowners Risks	3	Risks Associated with Bond	
Certain Information Related to		Insurance	25
this Official Statement.....	4	CONSTITUTIONAL AND STATUTORY	
PLAN OF FINANCE.....	4	LIMITATIONS ON TAXES AND	
Refunded Bonds.....	4	APPROPRIATIONS	26
Verification	7	Proposition 26.....	29
ESTIMATED SOURCES AND USES OF		Future Initiatives.....	30
FUNDS	8	THE AUTHORITY	30
THE 2018 BONDS	8	THE CITY	30
Green Bonds Designation	9	THE WATER SYSTEM	30
Redemption Provisions	9	Overview	30
SECURITY AND SOURCES OF		Service Area	31
PAYMENT FOR THE 2018 BONDS.....	11	Facilities	33
Pledge of Available Revenues	11	Drought and Conservation	
Senior Obligations	13	Measures	33
Springing Pledge of Net System		Water Supply	34
Revenues Upon Payment of		Water Treatment and	
Senior Obligations	13	Regulatory Matters.....	37
Rate Covenant.....	13	Capital Improvement Program	39
Rate Stabilization Fund.....	14	Water System Users.....	39
Deposit of Revenues	14	Outstanding Obligations	41
Reserve Fund	15	Organization and Management.....	42
Issuance of Parity Obligations	15	Employee Benefits.....	45
Default Under the Indenture and		WATER SYSTEM FINANCES.....	50
Remedies	17	Rate Setting, Billing and	
BOND INSURANCE	18	Collection Procedures	50
DEBT SERVICE SCHEDULE.....	19	Rates, Fees and Charges	51
CERTAIN BONDOWNERS' RISKS	20	Comparable Rates and Fees.....	55
Rate Covenant is Not a		Historical Debt Service	
Guarantee of Sufficient Net		Coverage	56
Revenues	20	Projected Debt Service	
System Expenses.....	20	Coverage	57
Limited Recourse on Default.....	20	TAX MATTERS	59
Initiatives; Changes in Law	21	LEGAL MATTERS	60
Statutory and Regulatory Impact	21	LITIGATION	61
Drought	21	The Authority	61
Risk of Earthquake and Other		The City	61
Natural Disasters	22		

TABLE OF CONTENTS
(continued)

Exhibit 4

<u>Page</u>	<u>Page</u>
CONTINUING DISCLOSURE.....62	MUNICIPAL ADVISOR 64
FINANCIAL STATEMENTS63	VERIFICATION OF MATHEMATICAL
RATINGS63	COMPUTATIONS 64
UNDERWRITING63	MISCELLANEOUS 65

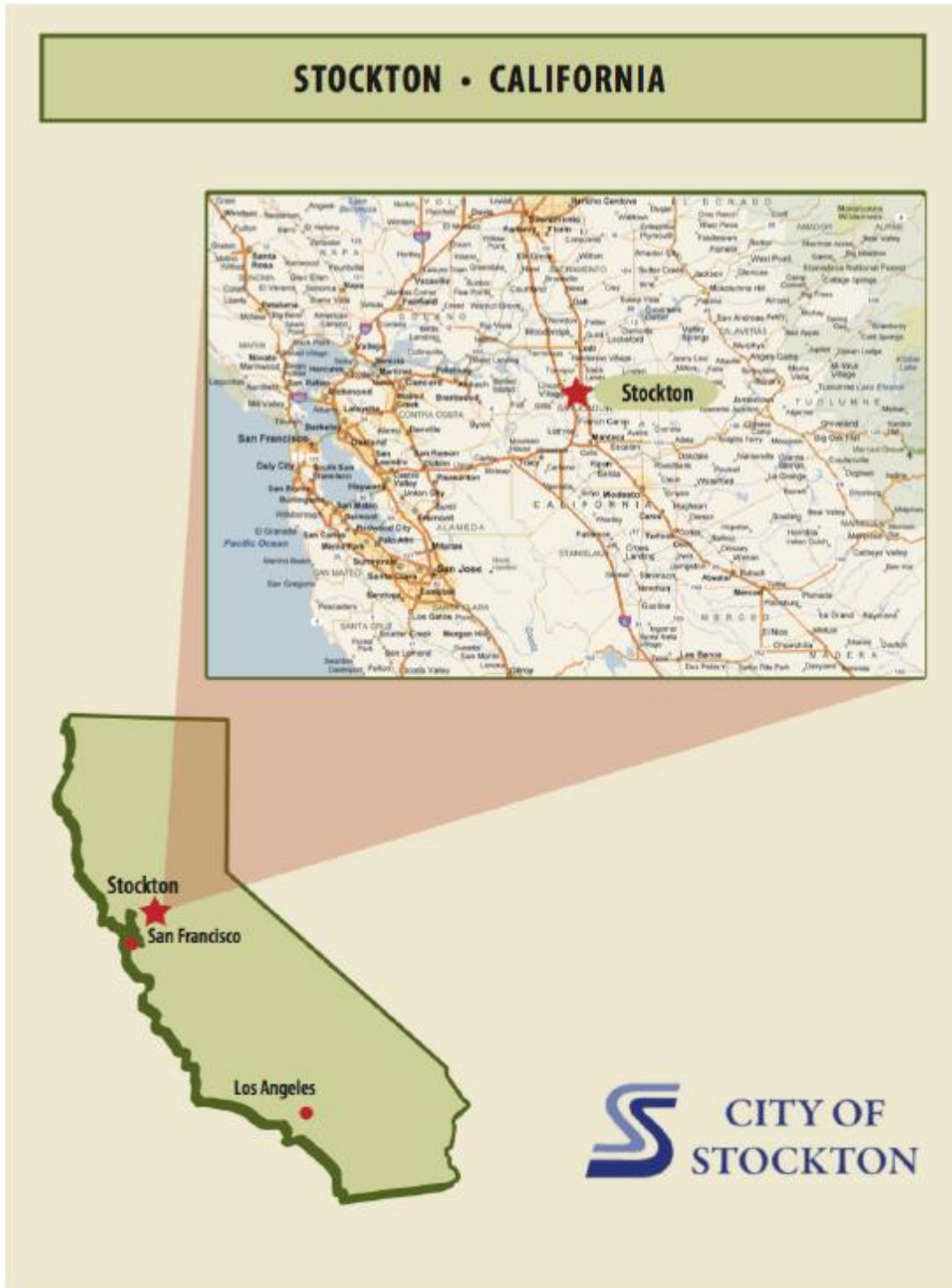
List of Maps and Tables

Regional Location Map.....	iii
Water System Map.....	32
Water System Organization Chart	43
Table 1 – Refunded Bonds	5
Table 2 – Estimated Sources and Uses of Funds.....	8
Table 3 – Debt Service Schedule.....	19
Table 4 – Historical Water Production and Purchases	37
Table 5A – Customer Base by Type of Account and Number of Connections.....	39
Table 5B – Water Sold by Customer Class.....	39
Table 6 – Ten Largest Accounts by Annual Consumption.....	40
Table 7 – Ten Largest Accounts by Revenue.....	41
Table 8 – Outstanding Obligations.....	41
Table 9 – Schedule of Rates and Charges and Effective Dates	52
Table 10 – Historical Connection Fee Revenues.....	54
Table 11 – Uncollectible Charges for Services	54
Table 12 – Current Monthly User Fee Comparison Residential Service	55
Table 13 – Current Water Connection Fees Comparison.....	55
Table 14 – Historical Revenues, Expenses and Debt Service Coverage.....	56
Table 15 – Projected Pro Forma and Debt Service Coverage Calculation.....	58

List of Appendices

APPENDIX A	GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY OF STOCKTON	A-1
APPENDIX B	AUDITED FINANCIAL STATEMENTS OF THE CITY OF STOCKTON FOR THE YEAR ENDED JUNE 30, 2017	B-1
APPENDIX C	SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS	C-1
APPENDIX D	CONTINUING DISCLOSURE CERTIFICATE.....	D-1
APPENDIX E	DTC AND THE BOOK-ENTRY ONLY SYSTEM.....	E-1
APPENDIX F	ORIGINAL OPINION OF BOND COUNSEL.....	F-1
APPENDIX G	SPECIMEN BOND INSURANCE POLICY	G-1

REGIONAL LOCATION MAP



OFFICIAL STATEMENT

\$ __, __, 000*

STOCKTON PUBLIC FINANCING AUTHORITY WATER REVENUE REFUNDING BONDS, SERIES 2018A (Green Bonds)

INTRODUCTION

This Introduction is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page through the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2018 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms as set forth in the 2018 Indenture or the 2018 Installment Purchase Contract. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—THE INDENTURE—Definitions of Certain Terms.”

General; Purpose

This Official Statement, which includes the cover page through the Appendices hereto (the “Official Statement”), provides certain information concerning the issuance by the Stockton Public Financing Authority (the “Authority”) of \$ __, __, 000* principal amount of Stockton Public Financing Authority Water Revenue Refunding Bonds, Series 2018A (the “2018 Bonds”).

The 2018 Bonds are being issued by the Stockton Public Financing Authority (the “Authority”) under and pursuant to Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended (the “Act”), a resolution adopted by the Authority on _____, 2018 and in accordance with the provisions of an Indenture, dated as of November 1, 2018, as amended (the “2018 Indenture”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

The 2018 Bonds are being issued by the Authority to provide funds which, together with certain other available funds, will be used to: (i) refund all of the \$4,030,000 outstanding obligations of the City of Stockton (the “City”) under California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2002A (the “Refunded 2002 Bonds”), all of the \$19,055,000 outstanding principal amount of Stockton Public Financing Authority 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Projects) (the “Refunded 2005 Bonds”), and all of the \$146,725,000 outstanding principal amount of Stockton Public Financing Authority Water Revenue Bonds, Taxable Build America Bonds, Series 2009B (Delta Water Supply Project) (the “Refunded 2009B Bonds,” and together with the Refunded 2002 Bonds, the “Refunded Bonds”); (ii) purchase a municipal bond insurance policy and a debt service reserve fund surety policy as security for the 2018 Bonds; and (iii) pay certain costs associated with the issuance of the 2018 Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

* Preliminary, subject to change.

Security for the 2018 Bonds

The 2018 Bonds are limited obligations of the Authority payable solely from installment payments (the “2018 Installment Payments”) to be made by the City under a 2018 Installment Purchase Contract, dated as of November 1, 2018 (the “2018 Installment Purchase Contract”), by and between the Authority and the City and certain amounts held under the 2018 Indenture. As security for the payment of the 2018 Installment Payments, the City has pledged “Available Revenues” derived from the operation of the Water System after payment of Operations and Maintenance Costs (defined herein) and payment of the Senior Obligations (defined herein). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS.”

The City may issue additional obligations payable from Net System Revenues on a parity with the 2018 Installment Payments and Parity Obligations (each as defined herein). However, for as long as the 2009 Bonds (defined herein) remain outstanding, the City has covenanted not to issue any additional Parity Obligations other than the Parity Obligations issued in connection with the 2018 Bonds. The City may also issue additional obligations payable from the Net System Revenues on a basis subordinate to the 2018 Installment Payments and the Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS–Senior Obligations” and “–Parity Obligations.”

THE 2018 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM 2018 INSTALLMENT PAYMENTS MADE BY THE CITY AND CERTAIN MONEYS HELD UNDER THE INDENTURE. THE 2018 BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY POLITICAL SUBDIVISION THEREOF, AND SHALL BE PAYABLE SOLELY FROM THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2018 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM AVAILABLE REVENUES OF THE WATER SYSTEM AS PROVIDED IN THE INSTALLMENT PURCHASE CONTRACT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL AND REDEMPTION PRICE OF, OR INTEREST ON THE 2018 BONDS. THE AUTHORITY HAS NO TAXING POWER. THE ISSUANCE OF THE 2018 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE AUTHORITY, THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE 2018 BONDS. THE 2018 BONDS AND THE 2018 INSTALLMENT PAYMENTS ARE NOT PAYABLE FROM THE GENERAL FUND OF THE CITY.

Bond Insurance

Concurrently with the issuance of the 2018 Bonds, _____ (“the “Bond Insurer”) will issue its Municipal Bond Insurance Policy for the 2018 Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the 2018 Bonds when due as set forth in the form of the Policy included as Appendix G to this Official Statement. See “BOND INSURANCE” and APPENDIX G-“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”\

[Reserve Fund]

Pursuant to the Indenture, a Reserve Fund in the amount of the Reserve Requirement (defined herein) is established as security for the 2018 Bonds. Concurrently with the issuance of the 2018 Bonds, the Bond Insurer will issue a debt service reserve fund policy in the amount of the Reserve Requirement (the “Reserve Policy”) for deposit in the Reserve Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS—Reserve Fund”

Outstanding Senior Obligations

The pledge of Net System Revenues securing the 2018 Installment Payments is subordinate to the pledge of Net System Revenues securing the payment or setting aside of all payments, transfers and other deposits (including debt service) on the obligation of the City with respect to the installment payments securing the \$53,410,000 outstanding principal amount of Stockton Public Financing Authority Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “Senior Obligations”) that will remain outstanding following the issuance of the 2018 Bonds and the refunding of Refunded Bonds. Upon the payment and/or defeasance of the Senior Obligations, the lien of Net System Revenues created by such Senior Obligations will be terminated and discharged and all Net System Revenues will become irrevocably pledged to the payment of the 2018 Bonds and Parity Obligations without any further act of the City. See also, APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—2018 INSTALLMENT PURCHASE CONTRACT—Pledge of Available Revenues; Springing Pledge of [Net Available] Revenues; City Revenue Fund.” See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS—Senior Obligations.”

Continuing Disclosure

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the 2018 Bonds or to any decision to purchase, hold or sell the 2018 Bonds, and the Authority will not provide any such information.

The City has undertaken all responsibilities of the Authority for any continuing disclosure to Holders of the 2018 Bonds.

The City will covenant for the benefit of Holders of the 2018 Bonds and beneficial owners to provide certain financial information and operating data relating to the City and the Water System by not later than March 31 after the end of the City’s Fiscal Year (the “Annual Report”), commencing with the report due March 31, 2019, and to provide notices of the occurrence of certain specified events. The Annual Report and notices of events will be filed by means of the Electronic Municipal Market Access (“EMMA”) site maintained by the Municipal Securities Rulemaking Board (the “MSRB”). The specific nature of the information to be contained in the Annual Report or the notices of events is set forth in APPENDIX D—“CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” for the status of the City’s compliance with its outstanding continuing disclosure undertakings, including continuing disclosure undertakings relating to the Water System.

Bondowners Risks

An investment in the 2018 Bonds involves risk. See “BONDOWNERS’ RISKS” for a discussion of important investment considerations and other risk factors associated with the purchase of the 2018 Bonds. Any one or more of the risks discussed, and others, could lead to a decrease in the market value of the 2018 Bonds or the ability of the City to make 2018 Installment Payments. Potential purchasers of

the 2018 Bonds are advised to review the entire Official Statement carefully and to conduct such due diligence and other review as they deem necessary and appropriate under the circumstances.

Certain Information Related to this Official Statement

Brief descriptions of the 2018 Bonds, the security for the 2018 Bonds, the Water System, the Authority and the City are included in this Official Statement together with summaries of certain provisions of the 2018 Bonds, the 2018 Indenture, the 2018 Installment Purchase Contract and certain other documents. Such descriptions do not purport to be comprehensive or definitive. Certain general demographic and economic information relating to the City is contained in APPENDIX A—"GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY OF STOCKTON."

All references herein to the 2018 Indenture, the 2018 Installment Purchase Contract, and other documents are qualified in their entirety by reference to such documents, and references herein to the 2018 Bonds are qualified in their entirety by reference to the form thereof included in the 2018 Indenture, copies of which are available prior to the issuance of the 2018 Bonds at the office of the Chief Financial Officer, City of Stockton, 425 North El Dorado Street, Stockton, California 95202; telephone: 209-937-8908 and thereafter at the office of the Trustee, Wells Fargo Bank, National Association, 333 Market Street, 18th Floor, San Francisco, California 94105; telephone: 415-371-3353.

PLAN OF FINANCE

The proceeds of the 2018 Bonds will be used by the Authority to: (i) refund the Refunded Bonds; and (ii) pay certain costs associated with the issuance of the 2018 Bonds. See also "ESTIMATED SOURCES AND USES OF FUNDS."

Refunded Bonds

Refunded 2002 Bonds. The Refunded 2002 Bonds were issued pursuant to an Indenture, dated as of May 1, 2002 (the "2002 Indenture") by and between by the California Statewide Communities Development Authority and MUFG Union Bank, formerly Union Bank of California, as trustee (the "2002 Trustee"). The Refunded 2002 Bonds were issued to refinance certain improvements to the Water System.

A portion of the proceeds of the 2018 Bonds will be deposited with the 2002 Trustee which, together with certain moneys on deposit under the 2002 Trust Agreement, will be sufficient and will be used to refund all of the Refunded 2002 Bonds on December 20, 2018, at a price equal to 100% of the principal amount redeemed, plus accrued and unpaid interest through the date of redemption.

The Refunded 2002 Bonds to be refunded consist of the following:

Table 1
Refunded Bonds

\$4,030,000
California Statewide Communities Development Authority
Water and Wastewater Revenue Bonds (Pooled Financing Program)
Series 2002A
Dated Date: May 7, 2002
Redemption Date: December 20, 2018
Redemption Price: 100%

Maturity Date	Outstanding Principal	Interest	CUSIP No. [†]
<u>(October 1)</u>	<u>Amount</u>	<u>Rate</u>	
2022	\$4,030,000	5.125%	13078AFL6

[†] CUSIP numbers are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. The CUSIP number is provided for convenience of reference only. None of the Authority, the City or the Underwriters assume any responsibility for the accuracy of such numbers.

Upon the deposit of cash into an escrow fund (the "2002 Escrow Fund") established pursuant to an Escrow Agreement, dated as of November 1, 2018 (the "2018 Escrow Agreement") by and between the Authority and the 2002 Trustee, the Refunded 2002 Bonds will no longer be deemed outstanding under the 2002 Indenture.

Refunded 2005 Bonds. The Refunded 2005 Bonds were issued pursuant to an Indenture, dated as of November 1, 2005 (the "2005 Indenture") by and among the Authority and Wells Fargo Bank, National Association, as trustee (the "2005 Trustee"). The Refunded 2005 Bonds were issued to refinance certain improvements to the Water System (the "2005 Project").

A portion of the proceeds of the 2018 Bonds will be deposited with the 2005 Trustee which, together with certain moneys on deposit under the 2005 Indenture, will be sufficient and will be used to refund all of the Outstanding Refunded 2005 Bonds on December 20, 2018, at a price equal to 100% of the principal amount redeemed, plus accrued and unpaid interest through the date of redemption.

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The Refunded 2005 Bonds to be refunded consist of the following:

\$19,055,000
Stockton Public Financing Authority
2005 Water Revenue Bonds, Series A
(Water System Capital Improvement Projects)
Dated Date: November 17, 2005
Redemption Date: December 20, 2018
Redemption Price: 100%

<u>Maturity Date</u> <u>(October 1)</u>	<u>Outstanding</u> <u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP No.</u> [†]
2019	\$130,000	4.250%	861398AC9
2020	130,000	4.375	861398AD7
2021	140,000	4.375	861398AE5
2022	140,000	4.375	861398AF2
2023	1,060,000	4.375	861398AG0
2024	1,105,000	4.375	861398AH8
2025	1,155,000	4.500	861398AJ4
2026	1,205,000	4.500	861398AK1
2027	1,270,000	4.750	861398AM7
2031	5,735,000	5.000	861398AL9
2035	6,985,000	4.750	861398AN5

[†] CUSIP numbers are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. The CUSIP number is provided for convenience of reference only. None of the Authority, the City or the Underwriters assume any responsibility for the accuracy of such numbers.

Upon the deposit of cash into an escrow fund (the "2005 Escrow Fund") established pursuant to an Escrow Agreement, dated as of November 1, 2018 (the "2018 Escrow Agreement") by and between the Authority and the 2005 Trustee, the Refunded 2005 Bonds will no longer be deemed outstanding under the 2005 Indenture.

Refunded 2009B Bonds. The Refunded 2009B Bonds were issued pursuant to an Indenture, dated as of August 1, 2009 (the "2009 Indenture") by and among the Authority and Wells Fargo Bank, National Association, as trustee (the "2009 Trustee"). The Refunded 2009B Bonds were issued to refinance certain improvements to the Water System (the "2009 Project").

A portion of the proceeds of the 2018 Bonds will be deposited with the 2009 Trustee which, together with certain moneys on deposit under the 2009 Indenture, will be sufficient and will be used to refund all of the Refunded 2009B Bonds on October 1, 2019 at a price equal to 100% of the principal amount redeemed, plus accrued and unpaid interest through the date of redemption.

The Refunded 2009B Bonds consist of the following:

\$146,725,000
Stockton Public Financing Authority
Water Revenue Bonds
Taxable Build America Bonds, Series 2009B
(Delta Water Supply Project)
Dated Date: August 27, 2009
Redemption Date: October 1, 2019
Redemption Price: 100%

<u>Maturity Date</u> <u>(October 1)</u>	<u>Outstanding</u> <u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP No.</u> [†]
2019	\$4,165,000	6.590%	86138AW7
2024	24,005,000	7.290	86138AX3
2038	118,555,000	7.942	86138AY1

[†] CUSIP numbers are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. The CUSIP number is provided for convenience of reference only. None of the Authority, the City or the Underwriters assume any responsibility for the accuracy of such numbers.

Upon the deposit of cash into an escrow fund (the "2009 Escrow Fund") established pursuant to an Escrow Agreement, dated as of November 1, 2018 (the "2018 Escrow Agreement") by and between the Authority and the 2009 Trustee, the Refunded 2009B Bonds will no longer be deemed outstanding under the 2009 Indenture.

Verification

The amounts deposited with the Trustee pursuant to the respective Escrow Agreement will be held by the Trustee and invested in Government Securities that are irrevocably pledged solely to the payment of the principal and interest on the applicable Refunded Bonds. The principal of and interest on such Government Securities, when received, will be sufficient to pay the redemption price of the applicable Refunded Bonds on the respective redemption date. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the 2018 Bonds are estimated to be applied as set forth in the following table:

Table 2
Estimated Sources and Uses of Funds

	<u>Refunded</u> <u>2002 Bonds</u>	<u>Refunded</u> <u>2005 Bonds</u>	<u>Refunded</u> <u>2009B Bonds</u>	<u>Total</u>
Sources of Funds:				
Par Amount of 2018 Bonds				
Funds held under the 2002 Indenture				
Funds held under the 2005 Indenture				
TOTAL ESTIMATED SOURCES				
Uses of Funds:				
Deposit to Escrow Fund ⁽¹⁾				
Deposit to Reserve Fund				
Costs of Issuance ⁽²⁾				
TOTAL ESTIMATED USES OF FUNDS				

(1) See "PLAN OF FINANCE."

(2) Includes fees of Bond Counsel, Disclosure Counsel, the Municipal Advisor, the Verification Agent, the 2002 Trustee, the 2005 Trustee, the 2009 Trustee, and the Trustee, the Underwriter's discount, premiums for the Policy and the Reserve Policy, fees relating to the credit ratings, printing, and other miscellaneous costs associated with the issuance of the 2018 Bonds. For the details of the Underwriter's discount, see "UNDERWRITING."

THE 2018 BONDS

The following is a summary of certain provisions of the 2018 Bonds. Reference is made to the 2018 Indenture for the complete provisions thereof, and the discussion herein is qualified in its entirety by such reference. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—THE INDENTURE."

General

The 2018 Bonds will be dated their date of original delivery, will be issued in fully registered form, in denominations of \$5,000 and any integral multiple thereof and will mature on the dates and in the principal amounts and bear interest at the rates as set forth on the inside cover of this Official Statement.

Interest on the 2018 Bonds will be calculated on the basis of a 360-day year comprised of twelve, 30-day calendar months, payable semiannually on April 1 and October 1 of each year, commencing [April 1, 2019] (each, an "Interest Payment Date").

The 2018 Bonds when issued, will be in fully-registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC acts as securities depository for the 2018 Bonds. Individual purchases and sales in the 2018 Bonds may be made in book-entry form only. Purchasers *will not* receive certificates representing their interest in the 2018 Bonds purchased. References herein to the Bondholders or Owners shall mean DTC and shall not mean the beneficial owners of the 2018 Bonds. So long as DTC, or its nominee, is the registered owner of all

of the 2018 Bonds, all payments on the 2018 Bonds are made directly to DTC. Principal of and interest on the 2018 Bonds are payable by wire transfer by the Trustee to DTC, which is expected, in turn, to remit such amounts to the DTC Direct Participants for subsequent disbursement to DTC Indirect Participants and beneficial owners. See APPENDIX E–“DTC AND THE BOOK–ENTRY ONLY SYSTEM.”

Payment of interest on the 2018 Bonds due on any Interest Payment Date on or before the maturity or prior redemption thereof will be made only to the person whose name appears in the bond registration books kept by the Trustee as of the close of business on the 15th day immediately preceding an Interest Payment Date (the “Record Date”), whether or not such Record Date is a Business Day, by check mailed on such Interest Payment Date by first class mail to such registered owner at the address as it appears in such books; *provided*, that upon the written request of any Holder of \$1,000,000 or more in aggregate principal amount of 2018 Bonds received by the Trustee prior to the applicable Record Date, interest will be paid on each Interest Payment Date by wire transfer of immediately available funds to an account maintained in any bank or trust company in the United States of America that is a member of the Federal Reserve System designated in writing by such Holder.

Green Bonds Designation

The 2018 Bonds are being designated by the Authority as “Green Bonds.” The purpose of designating the 2018 Bonds as “Green Bonds” is to allow investors to invest directly in bonds which finance such environmentally beneficial projects (“Green Projects”). For purposes of such designation, the Authority considers the projects financed with the proceeds of the Refunded Bonds to be Green Projects. The owners of the 2018 Bonds do not assume any specific project risk or economic benefit related to the projects as a result of the Green Bonds designation.

The proceeds from the 2018 Bonds will be used to refund the Refunded Bonds. The proceeds of the Refunded Bonds were used finance Green Projects consisting of various capital improvements to the City’s Water System, all of which have been constructed and completed. No additional reporting on the status of the Green Projects is anticipated.

The repayment obligation of the Authority with respect to the 2018 Bonds are not conditioned on the satisfaction of any certification relating to the status of the 2018 Bonds as Green Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS.”

Redemption Provisions

Optional Redemption. The 2018 Bonds maturing after October 1, 20__, are subject to optional redemption by the Authority prior to their respective stated maturity dates, upon notice on any date on or after October 1, 20__, as a whole or in part from such maturities as are designated by the Authority at a redemption price equal to 100% of the principal amount of the 2018 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Redemption. The 2018 Bonds maturing on October 1, 20__, are also subject to mandatory redemption by the Authority prior to their maturity date in part on October 1 of each year on or after October 1, 20__, from and in the amount of the Sinking Fund Payments due and payable on each such date, on October 1 of each of the years set forth below, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium, as follows:

Mandatory Sinking Fund Redemption Date (October 1)	Principal Amount
†	
† Final Maturity.	

The 2018 Bonds maturing on October 1, 20__, are also subject to mandatory redemption by the Authority prior to their maturity date in part on October 1 of each year on or after October 1, 20__, from and in the amount of the Sinking Fund Payments due and payable on each such date, on October 1 of each of the years set forth below, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium, as follows:

Mandatory Sinking Fund Redemption Date (October 1)	Principal Amount
†	
† Final Maturity.	

Notice of Redemption. Notice of redemption is required to be mailed by the Trustee by first class mail, not less than 20 nor more than 60 days prior to the redemption date, to the respective Holders of the 2018 Bonds designated for redemption at their addresses appearing on the registration books kept by the Trustee. Each notice of redemption is required to state the date of such notice, the 2018 Bonds to be redeemed, the date of the 2018 Bonds, the redemption date, the redemption price, the place of redemption (including the name and address of the Principal Corporate Trust Office of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of the 2018 Bonds of any one maturity are to be redeemed, the distinctive numbers of the 2018 Bonds of such maturity to be redeemed and, in the case of 2018 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice is also required to state that, subject to the rescission of such redemption as provided in the 2018 Indenture, on such redemption date there will become due and payable on each of the 2018 Bonds to be redeemed the redemption price thereof and, in the case of 2018 Bonds to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, and that from and after such redemption date interest on such 2018 Bonds shall cease to accrue, and each such notice shall require that such 2018 Bonds be then surrendered at the Principal Corporate Trust Office of the Trustee specified in the redemption notice for payment of the redemption price thereof.

Neither failure to receive any such notice nor any defect contained therein will invalidate any of the proceedings taken in connection with any such redemption.

Selection of 2018 Bonds to be Redeemed. If less than all Outstanding 2018 Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee is required to select the 2018 Bonds to be redeemed on such date randomly in any manner that the Trustee deems fair and appropriate, and for purposes of such selection 2018 Bonds are deemed to be composed of \$5,000 multiples and any such multiple may be separately redeemed.

Effect of Redemption. If notice of redemption is given pursuant to the 2018 Indenture, and moneys for payment of the redemption price of the 2018 Bonds called for redemption is held by the Trustee, then, subject to the rescission of such election to redeem as provided herein, on the redemption date designated in such notice the 2018 Bonds so called for redemption shall become due and payable, and from and after the date so designated interest on such 2018 Bonds shall cease to accrue, and the Holders of such 2018 Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Rescission of Notice of Redemption. Any notice of redemption may be rescinded by Written Request of the Authority given to the Trustee not later than five days prior to the date fixed for redemption. Upon receipt of such Written Request of the Authority, the Trustee is required to promptly mail notice of such rescission in the same manner and to the same parties that were mailed the original notice of redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS

Pledge of Available Revenues

The 2018 Bonds are limited obligations of the Authority issued under and pursuant to the 2018 Indenture, payable solely from the 2018 Installment Payments to be made by the City under the 2018 Installment Purchase Contract and certain amounts held under the 2018 Indenture. The obligation of the City to make 2018 Installment Payments constitutes a special obligation of the City payable solely from a pledge of the “Available Revenues.”

The pledge of Net System Revenues is subordinate to the pledge of Net Revenues securing payments with respect to the Senior Obligations and on a parity to the pledge of Net System Revenues securing payments with respect to the Parity Obligations. See “–Outstanding Obligations.”

“*Net System Revenues*” means, for any period, the System Revenues during such period less the Operation and Maintenance Costs during such period.

“*Operation and Maintenance Costs*” means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water or capacity purchased or otherwise acquired for the Water System whether or not such water or capacity is delivered or capable of being delivered or otherwise made available to or received by or for the account of the Water System and all costs of treating water for the Water System and all expenses necessary to maintain and preserve the Water System in good repair and working order and including all administrative and management costs of the City that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the City or charges

required to be paid by it to comply with the terms hereof, the Senior Obligations or of any Parity Obligations, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iv) charges for the payment of principal and interest on any debt service on account of any Senior Obligation, Prior Obligation, obligation subordinate to the Parity Obligations.

“Parity Obligations” means the 2018 Installment Payments, any other obligation (including, but not limited to, any installment payment obligation) payable on a parity with the 2018 Installment Payments from Available Revenues (defined herein) or Net System Revenues, as the case may be, as provided in the 2018 Installment Purchase Contract and the regularly scheduled payments under any Payment Agreement which have been designated by the City as a “Parity Obligation” in a Payment Agreement.

“Payment Agreement” means a written agreement for the purpose of managing or reducing the City’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City as authorized under any applicable laws of the State in connection with, or incidental to, the entering into of any Parity Obligation, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

“Senior Obligations” means the 2010 Installment Purchase Contract.

“System Revenues,” means all gross income and revenue received or receivable by the City from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all fees, rates, charges and amounts paid under any contracts received by or owed to the City in connection with the operation of the Water System and all proceeds of insurance relating to the Water System and all other income and revenue howsoever derived by the City from the ownership or operation of the Water System.

THE 2018 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM 2018 INSTALLMENT PAYMENTS MADE BY THE CITY AND CERTAIN MONEYS HELD UNDER THE INDENTURE. THE 2018 BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, AND SHALL BE PAYABLE SOLELY FROM THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2018 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM AVAILABLE REVENUES OF THE WATER SYSTEM AS PROVIDED IN THE INSTALLMENT PURCHASE CONTRACT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL AND REDEMPTION PRICE OF, OR INTEREST ON THE 2018 BONDS. THE AUTHORITY HAS NO TAXING POWER. THE ISSUANCE OF THE 2018 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE AUTHORITY, THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE 2018 BONDS. THE 2018 BONDS AND THE 2018 INSTALLMENT PAYMENTS ARE NOT PAYABLE FROM THE GENERAL FUND OF THE CITY.

Senior Obligations

The pledge of Available Revenues to secure the 2018 Installment Payments to pay the 2018 Bonds is subordinate to the pledge of Net System Revenues securing the payment or setting aside of all payments, transfers and other deposits (including debt service) on the Senior Obligations consisting of the Senior Obligations. See “PLAN OF FINANCE” and, also see “DEBT SERVICE SCHEDULE” for a presentation of annual debt service requirements for the Senior Obligations.

The documents securing the Senior Obligations set forth various events of default thereunder, including failure to pay interest or principal when due or default in the performance of certain covenants. The occurrence of an event of default relating to a Prior Obligation permits the trustee for or other holder of such obligations to declare all principal of and interest on such obligations to be immediately due and payable. In such event, sufficient Net System Revenues may not be available to the Trustee to pay debt service with respect to the 2018 Bonds in a timely manner. In addition, in the case of an event of default with respect to the Senior Obligations, the trustee (or lender) for Senior Obligations may take other actions which adversely impact the City’s ability to pay 2018 Installment Payments securing the 2018 Bonds.

Springing Pledge of Net System Revenues Upon Payment of Senior Obligations

Upon the payment and/or defeasance of the Senior Obligations, the lien on Net System Revenues created by such Senior Obligations will be terminated and discharged and all Net System Revenues will become irrevocably pledged to the payment of the 2018 Bonds and Parity Obligations without any further act of the City. See also APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS–2018 INSTALLMENT PURCHASE CONTRACT–[Pledge of Net System Revenues; Springing Pledge of Revenues; City Revenue Fund].”

Rate Covenant

In the 2018 Installment Purchase Contract, the City covenants to fix, prescribe and collect rates, fees and charges for the Water Service during each Fiscal Year which are estimated to yield Available Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. The City may make adjustments from time to time in such 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 Available Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of such covenant.

“*Available Revenues*” means all Net System Revenues remaining on the first Business Day of each month after the payment or setting aside of all payments, transfers and other deposits with respect to the Senior Obligations required to be made in such month pursuant to the terms of the Senior Obligations; *provided*, that if the Senior Obligations are deemed to be paid and no longer outstanding pursuant to their terms, “Available Revenues” will mean “Net System Revenues.”

“*Adjusted Available Revenues*” means, for any Fiscal Year or other period of calculation, the Available Revenues for such Fiscal Year or other period of calculation less, to the extent included in the calculation of Net System Revenues for such Fiscal Year or other period of calculation, all amounts referred to in clause (G) of the definition of Parity Debt Service received or expected to be received by the City or fiduciary, on behalf of the City, in such Fiscal Year or other period of calculation; *provided*, that if the Senior Obligations are deemed to be paid and no longer outstanding pursuant to their terms, all “Adjusted Available Revenues” refers instead to “*Adjusted Net System Revenues*.”

“*Coverage Requirement*” means, for any Fiscal Year or any other period, an amount of Adjusted Available Revenues equal to at least 115% of Parity Debt Service for such Fiscal Year or such other period, as applicable.

“*Parity Debt Service*” generally means with respect to any Parity Obligation for any period of calculation, those portions of the payments of interest on and principal and redemption premiums, if any, required to be made during such period under such Parity Obligations, less any such interest that is to be paid from proceeds of such Parity Obligations, less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds and capitalized interest funds established for such Parity Obligations, as described in APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—DEFINITIONS OF CERTAIN TERMS.”

Rate Stabilization Fund

The City previously established a fund (the “Rate Stabilization Fund”) into which the City may, from time to time, deposit from current System Revenues such amounts as the City determines and the amount of available current System Revenues will be reduced by the amount so transferred. The City may also deposit amounts in the Rate Stabilization Fund from any other lawfully available source other than current System Revenues and the amount of available current System Revenues will not be reduced by the amounts so transferred. Amounts may be transferred from the Rate Stabilization Fund and deposited in the City Revenue Fund, and any amounts so transferred within 270 days after the end of a Fiscal Year will be deemed System Revenues for such Fiscal Year when so transferred. The City may also apply moneys on deposit in the Rate Stabilization fund for any lawful purpose. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues or used for any lawful purpose.

At June 30, 2018 there was approximately \$2.78 million on deposit in the Rate Stabilization Fund.

Deposit of Revenues

Pursuant to the 2018 Indenture, the Trustee is required to deposit all Revenues received into the Bond Payment Fund and transfer such funds to the Interest Account, Principal Account, Redemption Account and the Reserve Fund in the manner and at the times described below. The Bond Payment Fund (and all accounts contained therein) is required to be maintained so long as any 2018 Bonds are Outstanding.

All moneys in the Bond Payment Fund (and the accounts contained therein) are required to be disbursed only for the purposes and uses authorized in the 2018 Indenture; provided, that any money in the Bond Payment Fund or accounts contained therein not required to pay the principal and interest and redemption premiums, if any, on the 2018 Bonds will be transferred to the Authority to be used for any lawful purpose of the Authority on the Business Day immediately following each Interest Payment Date.

Interest Account. On or prior to each Interest Payment Date, the Trustee is required to transfer to the Interest Account that amount of money representing the portion of the Revenues constituting the interest becoming due and payable on such Interest Payment Date. All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds on their respective Interest Payment Dates.

Principal Account. On or prior to each maturity date, the Trustee is required to transfer to the Principal Account that amount of money representing the portion of the Revenues constituting the

principal becoming due and payable on such maturity date. All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal on the 2018 Bonds on their respective maturities or on mandatory redemption prior thereto pursuant to the 2018 Indenture.

Redemption Account. Any prepayments paid to the Trustee pursuant to the 2018 Installment Purchase Contract are required to immediately be transferred to the Redemption Account. The Trustee is required to withdraw all money in the Redemption Account solely for the purpose of paying the interest and principal and redemption premiums, if any, on the 2018 Bonds to be redeemed on their respective redemption dates.

Reserve Fund. If moneys on deposit in the Reserve Fund are less than the Reserve Requirement, after making the deposits required to be made to the Principal Account, Interest Account and Redemption Account, the Trustee is required to deposit available Revenues in the Reserve Fund until the balance in the Reserve Fund equals the Reserve Requirement.

Reserve Fund

[The Indenture establishes a Reserve Fund to be held by the Trustee, and requires that the Bond Reserve Fund be maintained in the amount of the “Bond Reserve Requirement” which is defined to mean, as of any date of calculation, the least of: (i) Maximum Annual Debt Service as of such date, (ii) 125% of average Annual Debt Service, and (iii) 10% of the stated principal amount of the Outstanding Bonds.

Upon the issuance of the 2018 Bonds the Bond Reserve Requirement will be \$_____. The Reserve Policy in the amount of the Bond Reserve Requirement will be issued by the Bond Insurer and deposited into the Reserve Fund.

All money in the Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of paying the interest on and principal of the 2018 Bonds in the event there is insufficient money in the Principal Fund or the Interest Fund available for this purpose.]

Issuance of Parity Obligations

The City may at any time and from time to time issue or create any Parity Obligations, in addition to the 2018 Installment Payments, which may be incurred without compliance with the requirements described below), *provided*:

(i) None of the following has occurred and is continuing: (A) an Event of Default under the terms of the 2018 Installment Purchase Contract, and any other installment purchase contract, indenture, trust agreement or other document that provides for the issuance of Parity Obligations (each an “Issuing Document”) or (B) an Event of Default or Termination Event (as defined in any Payment Agreement) under any Payment Agreement; and

(ii) The City obtains or provides a certificate or certificates, prepared by the City or at the City’s option by a Consultant, showing that either:

(A) the Adjusted Available Revenues for either the most recent Fiscal Year for which audited financial statements are available or any 12 consecutive calendar month period during the 18 consecutive calendar month period ending immediately prior to the incurring of such additional Parity Obligations were at least sufficient to satisfy the Coverage Requirement for each of the next five full Fiscal Years following the incurring of such additional Parity Obligations or each of the next three full Fiscal Years following the incurring of such additional Parity

Obligations during which no interest is capitalized, whichever is later, including the Parity Debt Service during such Fiscal Years on such additional Parity Obligations; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the Adjusted Available Revenues for such Fiscal Year or 12 calendar month period, as the case may be, to reflect:

(1) an allowance for Net System Revenues that would have been derived from each new connection to the Water System that was made prior to the incurrence of such additional Parity Obligations but which was not in existence, during all or any part of such Fiscal Year or 12 calendar month period under consideration, in an amount equal to the estimated additional System Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or 12 calendar month period, and

(2) an allowance for Net System 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 incurrence of such additional Parity Obligations but which was not in effect, during all or any part of such Fiscal Year or 12 calendar month period, in an amount equal to the estimated additional Net System Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or 12 calendar month period; or

(B) the estimated Adjusted Available Revenues for each of the five full Fiscal Years next following the earlier of (i) the end of the period during which interest on such additional Parity Obligations is to be capitalized or, if no interest is capitalized, the Fiscal Year in which such additional Parity Obligations are incurred, or (ii) the date on which substantially all Water Projects financed with such additional Parity Obligations plus all Water Projects financed with all Parity Obligations are expected to commence operations, will be at least sufficient to satisfy the Coverage Requirement for such period; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the foregoing estimated Adjusted Available Revenues to reflect:

(1) an allowance for Net System 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

(2) an allowance for Net System 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 such five year period in an amount equal to the additional Net System Revenues that are estimated to be derived from such customers.

For purposes of clause (B) above, with respect to the Operation and Maintenance Costs, the City or the City's Consultant, as applicable, is required to use such assumptions (which are required to be set forth in such certificate or certificates) as such believes to be reasonable, taking into account: (i) historical Operation and Maintenance Costs, (ii) Operation and Maintenance Costs associated with the additions or improvements to or extensions of the Water System to be financed with the proceeds of such additional Parity Obligations and any other new additions or improvements to or extensions of the Water System during such five year period and (iii) such other factors, including inflation and changing operations or policies of the City, as the City or the City's Consultant, as applicable, believes to be appropriate.

The certificate or certificates described above in paragraph (ii) are not required if the Parity Obligations being issued are for the purpose of refunding (x) then outstanding Parity Obligations, if at the time of the issuance of such refunding Parity Obligations a certificate of the City is delivered showing that Parity Debt Service in each Fiscal Year on all Parity Obligations outstanding after the issuance of the refunding Parity Obligations will not exceed 110% of Parity Debt Service in each corresponding Fiscal Year on all Parity Obligations outstanding prior to the issuance of such refunding Parity Obligations; or (y) then outstanding Balloon Obligations or Variable Interest Rate Obligations, but only to the extent that the principal amount of such Balloon Obligations or Variable Interest Rate Obligations has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such Balloon Obligations or Variable Interest Rate Obligations, as applicable.

In addition to the covenants described above, so long as the Parity Obligations remain outstanding, the City is also required to satisfy certain covenants relating to the Parity Obligations in order to issue or incur additional Parity Obligations.

Default Under the Indenture and Remedies

Events of Default. The Indenture defines each of the following as an “Event of Default.”

(i) default made in the due and punctual payment of any 2018 Installment Payment when the same becomes due and payable;

(ii) default made by the City in the performance of any of the other agreements or covenants contained herein required to be performed by it, and such default continues for a period of 30 days after the City is given notice in writing of such default by the Authority or the 2018 Trustee;

(iii) the City files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction approves a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the City or of the whole or any substantial part of its property;

(iv) an event of default (as defined in any Parity Obligation or Issuing Document) occurs; or

(v) an event of default (as defined in the Senior Obligations) occurs.

Remedies Upon Default. In each and every such case during the continuance of an Event of Default the Authority may, by notice in writing to the City, declare the entire principal amount of the unpaid 2018 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding; *provided*, that this provision is subject to the condition that if at any time after the principal of the 2018 Bonds then Outstanding has been declared due and payable and before any judgment or decree for the payment of the money due has been obtained or entered the Authority is required to deposit with the Trustee a sum sufficient to pay all matured interest on all the 2018 Bonds and all principal of the 2018 Bonds matured prior to such declaration, with interest at the rate borne by such 2018 Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the 2018 Bonds due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has

been made therefor, then and in every such case the Trustee is required to, on behalf of the Holders of all the 2018 Bonds then Outstanding, rescind and annul such declaration and its consequences and waive such default; and *provided further*, that no such rescission and annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon. See also APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—INDENTURE—Events of Default and Remedies of Holders.”

BOND INSURANCE

[To Come]

DEBT SERVICE SCHEDULE

The Fiscal Year debt service requirements for the Senior Obligations, and the 2018 Bonds are set forth below.

Table 3
Debt Service Schedule

Fiscal Year (June 30)	Senior Obligations Debt Service ⁽¹⁾	Principal	Interest	Total	Total Obligations

† Represents debt service on the Senior Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS—Senior Obligations.”

Sources: _____.

CERTAIN BONDOWNERS' RISKS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the 2018 Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the 2018 Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the 2018 Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the 2018 Bonds or the ability of the City to make 2018 Installment Payments. There can be no assurance that other risk factors not discussed herein will not become material in the future.

General

The 2018 Installment Payments are payable solely from Net System Revenues. If for any of the reasons described below, or for any other reason, the City does not collect sufficient System Revenues to pay Operation and Maintenance Costs, Senior Obligations, the City will not be obligated to utilize any other of its funds, other than amounts available in the Reserve Fund and certain other amounts on deposit in the funds and accounts established under the 2018 Indenture to pay debt service on the 2018 Bonds. See also "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS—Reserve Fund."

Rate Covenant is Not a Guarantee of Sufficient Net Revenues

The ability of the City to pay the 2018 Installment Payments depends on the ability of the City to generate Net System Revenues in the levels required by the 2018 Installment Purchase Contract. Although the City has covenanted in the 2018 Installment Purchase Contract to impose rates, fees and charges as more particularly described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS—Rate Covenant," and expects that sufficient System 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 rates, fees and charges or other System Revenues will result in the generation of Net System Revenues in the amounts required by the 2018 Installment Purchase Contract. The City's covenant does not constitute a guarantee that sufficient Net System Revenues will be available to pay the 2018 Installment Payments.

System Expenses

There can be no assurance that the City's projected Operation and Maintenance Costs will be consistent with the descriptions in this Official Statement. Increases in expenses including, but not limited to, personnel costs, regulatory compliance costs and changes in technology, could require an increase in rates and charges in order to comply with the rate covenant.

Limited Recourse on Default

If the City defaults on its obligation to pay debt service on the 2018 Bonds or the Parity Obligations, the Trustee has the right to accelerate the total unpaid principal amount of the 2018 Bonds outstanding and interest accrued thereon and the Parity Obligations may also be accelerated. However, in the event of a default and such acceleration there can be no assurance that the City will have sufficient funds to pay the accelerated debt service from Net System Revenues.

Initiatives; Changes in Law

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Proposition 218, were adopted as measures that qualified for the ballot through California's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues. There is no assurance that the electorate or the State Legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net System Revenues and adversely affect the security for the 2018 Bonds.

Statutory and Regulatory Impact

Laws and regulations governing transmission, treatment and delivery of 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, these costs will likely increase. In addition, claims against the City for violations of regulations with respect to its facilities and services could be significant. Such claims are payable from Revenues or from other legally available sources.

Although the City covenants in the 2018 Installment Purchase Contract to fix, prescribe and collect rates and charges for the water service during each Fiscal Year sufficient to yield the debt service coverage required by the 2018 Installment Purchase Contract, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate Net System Revenues in the amounts required by the 2018 Installment Purchase Contract and to pay debt service on the 2018 Bonds. Certain potential increasing regulatory standards which could materially increase the cost to the City of providing water services.

Drought

Background. During a five-year period ending in 2016, the State of California experienced "exceptional drought conditions" (the most severe drought classification) according to the U.S. Drought Monitor. In addition, eight of the last 10 years had below average runoff, which resulted in chronic and significant shortages to municipal, industrial, agricultural, and wildlife refuge supplies, and historically low groundwater levels. As a result of those drought conditions, the Governor and the State Water Board issued Executive Orders, drought emergency regulations, and conservation standards to reduce potable urban water use.

State Requirements. On April 20, 2015, a State appeals court ruled in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* 235 Cal.App.4th 1493 (4th Dist. 2015), that local water agencies cannot charge higher tiered rates to customers simply to encourage conservation. Instead, the court held that water agencies can only charge rates that reflect the proportional cost of service attributable to a given parcel. The court held that tiered rates that increase progressively in relation to usage can be consistent with Proposition 218 if the tiers correspond to the actual cost of providing water service at a given level of usage, and that Proposition 218 requires that water rates and other government fees be linked to the costs of providing the service and not to other factors such as a desire to encourage conservation. See also, "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII C and Article XIII D of the California Constitution."

In April 2017, following unprecedented water conservation and record amounts of precipitation, the Governor lifted the drought emergency Executive Orders and rescinded the emergency proclamations

for all counties in the State except Fresno, Kings, Tulare, and Tuolumne where emergency drinking water projects continue to help address diminished groundwater supplies. State drought emergency regulations requiring urban water suppliers to stress-test water supplies, and to adopt and adhere to certain mandatory conservation measures were repealed. However, the Executive Order requiring permanent monthly water use reporting and banning wasteful water use practices, such as hosing of sidewalks, driveways, and other hardscapes, and strengthening local drought resilience plans remains in effect.

Although the recent State drought emergency regulations were repealed, in any year there is a risk of renewed drought conditions. If drought emergency regulations are reinstated, the City could be required to impose water use restrictions on customers of the Water System due to drought-related orders or regulations imposed by the State in the future.

City Response. During the drought, the City adopted conservation measures consistent with the executive orders of the Governor. For a description of the City's drought response see "THE WATER SYSTEM—Drought and Conservation Measures" and "—Water Supply—Drought Surcharge."

The City does not believe that compliance with the SWRCB regulations will have a material adverse effect on the Net System Revenues pledged to pay the principal of and interest on Bonds when due.

Climate Change

The adoption by the State of the California Global Warming Solutions Act of 2006 (AB 32) and subsequent companion bills demonstrate the commitment by the State to take action and reduce greenhouse gases ("GHG") to 1990 levels by 2020 and 80% below 1990 levels by 2050. The State Attorney General's Office, in accordance with SB 375, now requires that local governments examine local policies and large-scale planning efforts to determine how to reduce greenhouse gas emissions.

Climate change concerns are leading to new laws and regulations at the federal, State and local levels. Research suggests that the State will experience hotter and drier conditions, reductions in winter snow and increases in winter rains, sea level rise, significant changes to the water cycle, increased occurrences of extreme and unpredictable weather events, and increased catastrophic wildfires and severity of flood events. The compound impacts of which will affect economic systems throughout the State, including within the City. The City is unable to predict the impact that such laws and regulations, if adopted, and the effects of climate change will have on the Net System Revenues, however, the effects could be material.

Risk of Earthquake and Other Natural Disasters *[To be Reviewed and Updated]*

Earthquake. There are several active geological faults in the State that have potential to cause serious earthquakes that could result in damage within the City to the Water System, buildings, roads, bridges, and other property. The City is located in a zone 3 seismic area. Seismic zones aid in identifying and characterizing certain geological conditions and the risk of seismic damage at a particular location, and are used in establishing building codes to minimize seismic damage. The five seismic zones are: zone 0 (no measurable damage), zone 1 (minor damage), zone 2 (moderate damage), zone 3 (major damage) and zone 4 (major damage and greater proximity than zone 3 to certain major fault systems). While the City is not located in any existing special study zone delineated by the State Division of Mines and Geology as an area of known active faults, it is possible that new geological faults could be discovered in the area and that an earthquake occurring on such faults could result in damage of varying degrees of seriousness to property and infrastructure in the City, including the Water System.

In the event of a severe seismic event in or around the City, there could be substantial damage to the Water System facilities resulting in a reduction of Net System Revenues. Such reduction of Net System Revenues could have a material adverse effect on the City's ability to make timely payments of 2018 Installment Payments with respect to the 2018 Bonds.

Risk of Flooding. In accordance with the National Flood Insurance Reform Act (the "NFIRA") requiring, among other things, that the Federal Emergency Management Agency ("FEMA") assess its flood hazard map inventory at least once every five years. In 1995, FEMA informed the City that updated flood insurance rate maps would be prepared. In the absence of the construction of flood improvements, FEMA indicated that all of metropolitan Stockton and the surrounding County areas would be located within the boundaries of a 100-year floodplain. A 100-year floodplain is an area expected to be inundated during a flood event of the magnitude for which there is a 1% (or 1-in-100) probability of occurrence in any year.

In response, the City, the County, and the San Joaquin County Flood Control and Water Conservation District formed the San Joaquin Area Flood Control Agency ("SJAFCA"), a Joint Powers Authority created in May 1995. SJAFCA officials convinced representatives of FEMA to delay issuing the maps until SJAFCA constructed a \$70 million Flood Protection Restoration Project (the "FPRP") which also took into account full-buildout within the areas in accordance with then-existing general plans. The FPRP was completed in 1998 and consisted of flood wall and levee improvements along 40 miles of existing channel levees, 12 miles of levees, widening of the then-existing floodway, modifications to 24 bridges and the addition of two major detention basins. Updated flood insurance rate maps ("FIRMs") were issued on April 2, 2002, permitting development within all of metropolitan Stockton and surrounding areas without further restriction due to potential flood risk.

In the aftermath of Hurricane Katrina in August 2005, FEMA implemented a Flood Map Modernization program to update existing FIRMs, policies, regulations and procedures. In particular, FEMA has placed a high priority on reviewing, identifying and accrediting levees and levee systems nationwide to verify whether such levees and levee systems provide flood protection. To assure that levees shown on modernized FIRMs still provide that level of protection, FEMA requires that each levee in the country have a maintenance and operation plan.

FEMA completed inspection of the levees in the County and final FIRMs became effective on October 16, 2009, placing approximately 5,000 parcels in a 100-year floodplain. Efforts are presently underway to develop a project to remove these parcels from the 100-year floodplain.

In October 2007, the Governor signed into law Senate Bill 5 requiring urban areas in the Central Valley to reach a 200-year level of protection by 2025. Senate Bill 5 and a subsequent cleanup bill, Senate Bill 1278, require local city and county planning agencies in the Central Valley including Stockton, to amend their General Plans by July 2, 2015 and to subsequently amend their zoning ordinances by July 2, 2016 to include specific information and requirements for new development, located within a flood hazard zone, to have 200-year flood protection. Since the City of Stockton is primarily situated within a flood hazard zone area, this requirement will be applicable Citywide. ***[What is the impact, if any on new development within the City?]***

In 2005 voters approved State propositions 1E and 84 making available \$5 billion for flood management. After the passage of propositions 1E and 84 the State Department of Water Resources has spent millions of dollars to evaluate levees and support existing and future projects to reach a 200-year level of flood protection for urban communities in the County including the City.

The City makes no representation that the construction of the FPRP will guaranty that FEMA will accredit the levee improvements completed in 1998 or any of the other levees within the City or that FEMA will not issue revised FIRMs in the future that place all or some of the City within the boundaries of a 100-year floodplain.

Risk Management and Insurance

The City employs a full-time Risk Manager, as well as claims and loss control professionals, for the prevention and mitigation of property, liability, and employee claims for injury or damage. The City has maintained a program of self-insurance for many years. The City participates in two public entity insurance risk pools: the California Joint Powers Risk Management Authority (“CJPRMA”) and the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for various risk pooling and financing. For Fiscal Year 2018-19, excess pooled coverage for the self-insured general liability program is provided through the CJPRMA with an excess policy limit of \$40,000,000 subject to a self-insured retention (SIR) of \$1,000,000; auto damage coverage is provided through Alliant Insurance Company and has a policy deductible of \$25,000 per claim; and property coverage is provided through an insured program with CJPRMA with a deductible of \$100,000 per occurrence (excluding earthquake damage to any of its facilities). For Fiscal Year 2018-19, excess pooled coverage for the self-insured workers’ compensation program is provided through CSAC-EIA with statutory limits subject to a \$500,000 SIR.

Limitations on Remedies

The ability of the City to comply with its covenants under the 2018 Installment Purchase Contract and to generate Net System Revenues sufficient to pay principal of and interest with respect to the 2018 Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See “–Proposition 218.” Furthermore, the remedies available to the owners of the 2018 Bonds upon the occurrence of an event of default under the 2018 Installment Purchase Contract are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition, enforcement of remedies may be limited by equity principles; the exercise by the United States of America of the powers delegated to it by the Federal constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the 2018 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations, or modification of their rights. Remedies may be limited since the Water Delta Project serves an essential public purpose.

In addition to the limitations on remedies contained in the 2018 Installment Purchase Contract, the rights and obligations under the 2018 Installment Purchase Contract 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 limitations on legal remedies against cities in the State. The opinion delivered by Bond Counsel, in connection with the issuance of the 2018 Bonds, is subject to such limitations. See APPENDIX F–“OPINION OF BOND COUNSEL.” In the event the City fails to comply with its covenants under the 2018 Installment Purchase Contract or the Authority fails to pay principal of and interest on the 2018 Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the 2018 Bonds.

Loss of Tax Exemption on the 2018 Bonds

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2018 Bonds, the City and the Authority have covenanted in the 2018 Installment Purchase Contract to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended. The interest on the 2018 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such 2018 Bonds as a result of acts or omissions of the City or the Authority in violation of this or other covenants in the 2018 Installment Purchase Contract applicable to the 2018 Bonds. The 2018 Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the 2018 Installment Purchase Contract. See “TAX MATTERS.”

Risk of Tax Audit

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (the “IRS”), the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations (which would include the issuance of securities such as the 2018 Bonds) is expected to increase significantly under the new TE/GE Division. There is no assurance that if an IRS examination of the 2018 Bonds was undertaken that it would not adversely affect the market value of the 2018 Bonds. See “TAX MATTERS.”

Secondary Market

There can be no guarantee that there will be a secondary market for the 2018 Bonds or, if a secondary market exists, that the 2018 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Risks Associated with Bond Insurance

In the event of default of the payment of principal or interest with respect to the 2018 Bonds when all or some becomes due, any owner of the 2018 Bonds shall have a claim under the Policy for such payments. See “BOND INSURANCE” and APPENDIX G—“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.” However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the 2018 Bonds by the Authority which is recovered by the Authority from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Bond Insurer at such time and in such amounts as would have been due absence such prepayment by the Authority unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may

direct and must consent to any remedies and the consent of the Bond Insurer may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the 2018 Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the 2018 Bonds, no assurance is given that such event will not adversely affect the market price of the 2018 Bonds or the marketability (liquidity) for the 2018 Bonds.

The long-term insured rating on the 2018 Bonds is dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The financial strength and claims paying ability of the Bond Insurer are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the 2018 Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the 2018 Bonds or the marketability (liquidity) for the 2018 Bonds. See “RATINGS.”

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the Authority nor the Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Authority to pay principal and interest on the 2018 Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See “BOND INSURANCE” for further information provided by the Bond Insurer and APPENDIX G–“SPECIMEN MUNICIPAL BOND INSURANCE POLICY” for the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

The activities of the City and the Water System, including, without limitation, the establishment of rates for water service and the issuance of bonds, are subject to a number of limitations under State law. Certain of such limitations are summarized below. Additionally, such limitations may be revised, enhanced, expanded, or otherwise altered as provided under State law, including in certain instances by legislation adopted by State, regional or local authorities, including the State Legislature or the City Council, or by the voters of the State or the City themselves through the power of initiative or referendum, by voting in favor of amendments to the City Charter, or in any other lawful manner.

Article XIII A of the California Constitution

Section 1(a) of Article XIII A of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978 or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines “full cash value” to mean “the County assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has

occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, do not constitute a “purchase” or “change of ownership” triggering reassessment under Article XIII A. This amendment could serve to reduce the property tax revenues of the City. Other amendments permitted the State Legislature to allow persons over 55 or “severely disabled homeowners” who sell their residence and buy or build another of equal or lesser value within two years in the same city, to transfer the old residence’s assessed value to the new residence.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of “new construction” seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, provided that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster. County assessors may “recapture” the reduced assessed valuation of such property up to its pre-decline value, depending on the county assessor’s measurement of the value subsequently restored to such property.

Under State law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged may be considered a “special tax” that must be authorized by a two thirds vote of the electorate. Accordingly, if a portion of the City’s water user rates or capacity charges were determined by a court to exceed the reasonable cost of providing service, the City might not be permitted to continue to collect that portion unless it were authorized to do so by a two thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. If the City were unable to obtain such a two thirds majority vote and were unable to reduce costs, such failure could adversely affect the City’s ability to pay the debt service on the Series 2018 Bonds. However, the reasonable cost of providing water services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, State courts have determined that fees such as capacity charges will not be special taxes if they approximate the reasonable cost of constructing the water system improvements contemplated by the local agency imposing the fee.

The United States Supreme Court has upheld Article XIII A against a challenge alleging violation of equal protection under the Fourteenth Amendment to the United States Constitution.

Article XIII C and Article XIII D of the California Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution, creating additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees,” and “charges.” Articles XIII C and XIII D became

effective, pursuant to their terms, as of November 6, 1996, although compliance with some of the provisions was deferred until July 1, 1997, and certain of the provisions purport to apply to any tax imposed for general governmental purposes (*i.e.*, “general taxes”) imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIII C. Article XIII C extends the people’s initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIII C to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges.

Article XIII C extends the people’s initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIII C to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn* (described below), the Court concluded that under Article XIII C local voters by initiative may reduce a public agency’s water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate’s initiative power is subject to the public agency’s statutory obligation to set water service charges at a level that will “pay the operating expenses of the agency, ... provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.”

Article XIII D. Article XIII D established procedural requirements for the imposition of assessments, defined to mean any levy or charge upon real property for a special benefit conferred upon real property, including standby charges. The procedural requirements include the conducting of a public hearing and an election, by mailed ballot, with notice to the record owner of each parcel subject to the assessment. If a majority of the ballots returned oppose the assessment, it may not be imposed.

Article XIII D conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water, refuse collection services or storm water, voter approval. Article XIII D defines “fee” or “charge” to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” One of the requirements of Article XIII D is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing, if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

In *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004), and *Bighorn Desert View Water Agency v. Verjil*, 39 Cal. 4th 206 (2006), the California Supreme Court clarified uncertainty surrounding the applicability of Section 6 of Article XIII D to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIII D because a water connection fee is not a property related fee or charge because it results from the property owner’s voluntary decision to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property

ownership” within the meaning of Article XIII D, rejecting, in *Bighorn*, the water agency’s argument that consumption based water charges are not imposed “as an incident of property ownership” but as a result of the voluntary decisions of customers as to how much water to use.

The City provides public notice of proposed water rate increases in accordance with the requirements of Article XIII D through means that include, among others, mailings to residential and commercial customers of public hearings on rate increases, followed by public hearings. The City also develops and adopts retail utility user rates and fees in accordance with the requirements of Article XIII D(6)(b) that limit property related fees and charges.

The courts have not fully interpreted the provisions of Proposition 218. The City is unable to predict how courts will further interpret Article XIII C and Article XIII D, and what, if any, further implementing legislation will be enacted. Under the *Bighorn* case, City voters could adopt an initiative measure that reduces or repeals the City’s water rates and charges, though it is not clear whether (and courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonded indebtedness. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of the City to impose, levy, charge and collect increased fees and charges for the Water System, or to call into question water rate increases previously adopted by the City. No assurance may be given that Articles XIII C and XIII D will not have a material adverse impact on Revenues of the Water System.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues.

Proposition 26

Proposition 26, which amended Article XIII A and XIII C of the California Constitution, was approved by the electorate at the November 2, 2010 election. Proposition 26 imposes a two thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two thirds voter approval requirement with respect to fees and charges for special purposes. According to its supporters, Proposition 26 was designed to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, Proposition 218, and other measures through the use of non tax fees and charges.

Proposition 26 expressly excludes from its scope “a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the governmental entity of providing the service or product to the payor” and “assessments and property related fees imposed in accordance with the provisions of Article XIII D.” The California Supreme Court has held that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIII D. See “–Article XIII C and Article XIII D of the California Constitution.”

The City believes that Proposition 26 is not intended to, and would not, apply to fees for water deliveries and services charged by the City. The City, however, is unable to predict how Proposition 26 will be interpreted by the courts to apply to the provision of water services by local governments such as the City.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Proposition 26 were adopted as measures that qualified for the ballot through California’s initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations which may affect the County’s revenues or its ability to expend its revenues.

THE AUTHORITY

The Authority was created by a Joint Exercise of Powers Agreement, dated June 18, 1990 (the “JPA Agreement”), between the City and the former Redevelopment Agency of the City of Stockton. The JPA Agreement was entered into pursuant to the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State. The Authority was created for the purpose of facilitating the financing or refinancing public improvement facilities within the City.

THE CITY

The City is a municipal corporation and charter city incorporated in 1850. The City is the county seat of San Joaquin County and is located in California San Joaquin Valley, 78 miles east of the San Francisco Bay Area, 345 miles north of Los Angeles and 45 miles south of Sacramento. San Joaquin County is bounded by Sacramento County on the north, Stanislaus County on the south, Contra Costa County and Alameda County on the west and Amador County, Calaveras County and Stanislaus County on the east.

Certain economic and demographic information with respect to the City is contained in APPENDIX A–“GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE CITY OF STOCKTON.” **This information concerning the City is presented as general background information only. The 2018 Bonds are secured solely by the 2018 Installment Payments and funds and accounts established under the 2018 Indenture, and *not* by the general fund of the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018 BONDS.”**

THE WATER SYSTEM

Overview

The City of Stockton Water Utility (the “Water Utility”) is one of three utilities managed, operated, and maintained by the City of Stockton Municipal Utilities Department (the “Stockton MUD”). The two other utilities are wastewater and stormwater. The Water Utility is comprised of the Delta Water Project, a regional water distribution system that was placed into service during Fiscal Year 2011-12, a distribution system, various well sites and reservoirs located throughout the City, and a treatment plant. See “–Facilities.”

The City operates two independent water systems within the City. One serving an area in the northern area of the City (the “North Water System”) and the other serving the southern area of the City comprised of the Metropolitan Airport and County Hospital/Jail complex area (the “South Water System”).

The City's Water Enterprise (the "Water System") commenced service in the northern area of the City in 1954 with 18 customers. Since 1969, the Water System has been operated as an enterprise relying solely on revenues and fees generated from the sale of water and services. The Water System receives no support from the City's General Fund or other revenues. During Fiscal Year 2017-18, the Water System served 50,825 active customer connections.

During Fiscal Year 2017-18, the Water System supplied water, based on volume, to approximately 53% of the homes and businesses located within the Stockton Metropolitan Area. The California Water Services Company ("Cal Water"), a private water company, provided water to approximately 44%, and San Joaquin County served the remaining approximately 3% of residents and businesses in the Stockton Metropolitan Area.

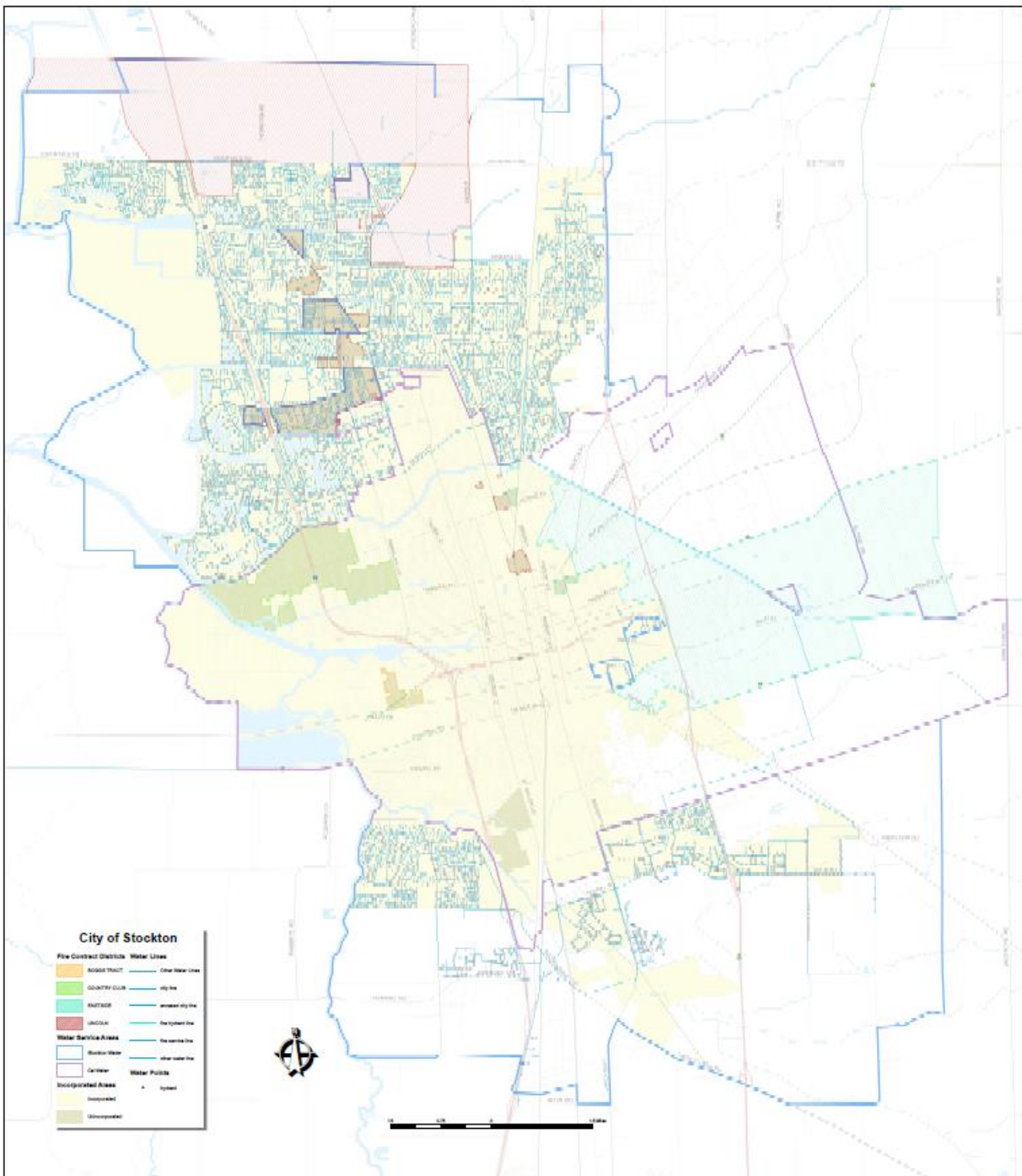
Service Area

Water service to the incorporated areas of the City is primarily provided by either the Water System or Cal Water. The County and the Stockton East Water District (the "SEWD") also provide water service to some smaller areas within the Stockton Metropolitan Area.

In addition to providing water service to the North Water System, the City has provided water service to the South Water System since 1984. In 1989, the City took over the operation and maintenance of the County's Southern Water System serving the airport and the hospital/jail complex in South Stockton and also agreed to supply water to the Lincoln Village and Colonial Heights Maintenance Districts under a long-term service agreement with the Districts that expire in 2035.

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The following is a map of the Water System Service Area.



Facilities

The Water System facilities consist of: (i) a distribution system of approximately 590 miles of water pipelines, 48,000 water meters, and 7,000 fire hydrants; (ii) [eight] ground-level enclosed storage tanks with capacities ranging from 3.0 to 4.0 million gallons; (iii) the Delta Water Project, which draws water from the Sacramento-San Joaquin River Delta (the “Delta”) and the Mokelumne River via Woodbridge Irrigation District facilities to provide additional water through the City’s existing distribution system, an Intake and Pump Station Facility located along the San Joaquin River; approximately 18 miles of underground pipelines; a 30 million gallon per day (mgd) water treatment plant; (iv) an onsite laboratory; and (v) 30 groundwater wells.

[Joint Water Recycling Facility – To Come]

Power Supply. Power for the Water System is supplied by Pacific Gas & Electric and [five] natural gas powered pumps. The Water System also operates four diesel-powered and [five] propane/natural gas-powered back-up generators located throughout the City.

Water Quality Testing. In accordance with United States Environmental Protection Agency (the “EPA”) and State Water Resources Control Board (the “SWRCB”) requirements, the Water System conducts or commissions, extensive tests and studies on the quality of water supplied to its customers to ensure that tap water is safe to drink. These requirements, which limit the amount of certain contaminants, include testing for the presence of more than 30 inorganic, biological, radioactive, volatile organic and synthetic organic constituents.

Onsite Laboratory. The laboratory is an operating Division of the Stockton MUD and is located at the Delta Water Treatment Plant on 11373 North Lower Sacramento Road in Lodi, California. The laboratory performs drinking and source water microbiology testing to comply with the City’s Water Division’s System No. 3910012 Water Supply Permit No. 01-10-15P-001. The scope of work performed by the laboratory includes numerous sampling programs, analyses for treatment plant process control, and the State Title 22 disinfection monitoring requirements for public water supply systems. The laboratory also performs the majority of the microbiological analyses required by the EPA pursuant to the Revised Total Coliform Rule, Odor, and Taste Testing under the Safe Drinking Water Act. Analyses that cannot be performed in-house are contracted to certified commercial laboratories.

Drought and Conservation Measures

On May 5, 2015, the SWRCB adopted regulations that require water purveyors to reduce water use as a result of extreme drought conditions across the State. The City was given a target reduction of 25% from the baseline use that was calculated in the 2010 UWMP as 195 gallons per capita, per day (“GPCD”). For 2015, the City target was for a reduction in water use to 172 GPCD, and the actual 2015 GPCD was 130. The 2016 Water Rate Study (defined herein) that established rates and charges through July 1, 2020, included a drought surcharge to take into account consumption reductions as a result of conservation efforts. See “WATER SYSTEM FINANCES—Rate Setting, Billing, and Collection Procedures—Water Rate Study.”

In April 2017, the Governor lifted the drought emergency Executive Orders. See “CERTAIN BONDOWNERS’ RISKS—Drought—State Requirements.” The City had lowered its consumption by 33% during the drought emergency. As of July 1, 2018, use has increased by 12% to 145 GPCD.

Water Supply

Overview. All urban water suppliers in the State are required to prepare an Urban Water Management Plan (a “UWMP”) to provide information about an urban water supplier’s water supplies, water supply reliability, water conservation, water shortage contingencies, and recycled water usage. The UWMP is required to be updated at least once every five years on or before December 31, in years ending in five and zero. As defined in Section 10617 of the State Water Code, an “urban water supplier” is a supplier, either publicly or privately owned, that provides water to more than 3,000 customers or supplies more than 3,000 acre-feet of water annually on a wholesale or retail basis or both. As an urban water supplier, the current UWMP (the “2015 UWMP”) for the Stockton MUD was adopted by City Council in [July] 2016.

Drought Surcharge. The City encourages customers to assist in assuring an adequate water supply by using water efficiently. The City is also a signatory to the California Urban Water Conservation Council’s Memorandum of Understanding whereby the City has committed to implement best management practices to conserve water in urban areas. The City continues to develop and implement water saving programs through public outreach and school education programs, water use surveys, distribution of water conservation publications and water saving devices, incentives and rebates, and landscape conservation programs. The City’s current water conservation ordinance identifies a number of seasonal and year-round prohibited water wasting activities, including but not limited to irrigation activities between May and October.

In accordance with the Water Conservation Ordinance adopted by the City Council in 1988 and the Water Shortage Emergency Ordinance adopted by the City Council in 1991 into the Stockton Municipal Code, and the 2015 UWMP, in the event of a water shortage emergency, the City developed a five stage rationing plan, which range from voluntary (Stage 1, setting a 10% reduction goal) to mandatory (Stage 5, setting a 50% or greater reduction goal) rationing, depending on the causes, severity, and anticipated duration of the water supply shortage. The City was last in a mandatory reduction stage from 1990 through 1992. The Water System is currently operating under a Stage 1 (voluntary) water shortage emergency and customers have been requested to adjust either interior or outdoor water use, in order to meet the voluntary 10% water reduction goal.

In order to mitigate the financial impacts of a water shortage, the City established a practice of maintaining a contingency reserve as part of its Water Fund. The goal is to maintain a fund reserve equivalent to six months of minimum operating expenses, using a three-year trend to project the actual amount. This contingency reserve will be used to stabilize rates during periods of water shortage or disasters affecting the water supply. Using this method, the City does not anticipate needing to increase rates as much or as often during a prolonged or severe shortage.

Effective August 8, 2017, the City Council adopted Ordinance 2017-08-22-1403, that approved year-round water conservation measures to comply with State-mandated conservation requirements. These measures include prohibitions on wasteful uses, outdoor watering within 48 hours of a measurable rainfall, watering between 11:00 am through 6:00 p.m., washing down of driveway, patios, sidewalks, buildings and other hard services, among others.

On May 31, 2018, the Governor of the State of California signed Senate Bill 606 (2018) (“SB 606”) and Assembly Bill 1668 (2018) (“AB 1668” and, together with SB 606, the “Water Efficiency Legislation”) into law, requiring the establishment of Statewide water efficiency standards. The Water Efficiency Legislation requires that urban water suppliers create urban water use objectives, submit annual reports to DWR on such objectives and actual water use, and establish water shortage contingency plans. The Water Efficiency Legislation also provides incentive to increase potable water reuse. The

City has implemented the new standards and provide the reporting as required to comply with the Water Efficiency Legislation.

SB No. 7. On November 10, 2009, the Governor signed into law Senate Bill No. 7 (“SB 7”) which SB 7 requires, among other things, that the State achieve a 20% reduction in urban per capita water use by December 31, 2020, by reducing per capita water use by at least 10% over baseline use, on or before December 31, 2015. SB 7 also requires each urban retail water supplier (including the City) to develop urban water use targets and an interim water use target in accordance with specified requirements. The City contracted with West Yost Associates to determine interim and final per capita water use targets, identify the appropriate base year, evaluate and recommend an appropriate method for developing the urban water use targets and assist with the public hearing process required to adopt the baseline method to be used. As part of the City Council’s adoption of the 2015 UWMP in July 2011, the City identified 195 GPCD as the City’s baseline water use, and adopted Method 3 (95% of State Hydrologic Region Target) for determining both the 2015 interim and 2020 compliance water use targets of 180 and 165 GPCD, respectively.

Water Sources. The Water System has four current major supply sources: (i) water pumped from the San Joaquin River (Delta) under the City’s Water Right Permit and treated as part of the Delta Water Project; (ii) water purchased from the Woodbridge Irrigation District pursuant to the terms of an agreement; (iii) water produced by the Water System’s own wells; and (iv) treated surface water which is purchased through a long-term contract from SEWD. A five-year summary of water supplies by source production and consumption is set forth in Table 4–“Historical Water Production and Consumption.”

Delta Water Project. On March 8, 2006, the City of Stockton received its first Water Rights Permit (Permit No. 21176) from the State Water Resources Control Board (“SWRCB”) to divert up to 33,600 acre-feet per year from the Delta. In compliance with Water Code Section 1485, the City is authorized to divert from the Delta an amount less than or equal to the amount of properly treated effluent discharge from the Regional Wastewater Control Facility to the Delta, based on a 15-day running average. The Delta Water Project consists of a 30 million gallon per day, ozone and pressure membrane treatment facility (the “Delta Water Treatment Plant”), 12 miles of raw water pipeline, and six miles of treated water pipeline. The surface water is treated at the Delta Water Treatment Plant, meets all requirements set by the State and Federal government, and is distributed to City Water System customers.

The Delta Water Project was undertaken by the City to replace declining and less reliable surface water supplies, protect groundwater resources, and to generally provide for the current and future planned water needs within the Stockton Metropolitan Area.

The City added the Delta Water Project to its Water System to provide a supplemental source of surface water to the existing SEWD supply. The City’s previous allocation of the SEWD supply accounted for approximately 56% of the SEWD plant output. Due to the operation of the Delta Water Project, the City Council approved a Supply and Cost Allocation Agreement to reduce the amount of treated surface water purchased from the SEWD by the City from approximately 27,000 acre-feet to 17,500 acre-feet per year, which accounts for approximately 37.6% of the SEWD plant output.

Completion of the Delta Water Project resulted in a reduction in groundwater pumping by more than two-thirds and an 82% reduction in purchases of treated surface water from SEWD. See “–SEWD Purchased Water.”

WID Agreement Water. On January 22, 2008, the City and the Woodbridge Irrigation District (the “Irrigation District”) entered into an Agreement for Purchase of Water from the Woodbridge Irrigation District by the City of Stockton (the “WID Agreement”) for a term of 40 years with one 40-year

option to extend. Subsequently, on May 13, 2010, the Irrigation District and City entered into an Amendment to extend the commencement date of payments by the City to the Irrigation District. Pursuant to the WID Agreement and Amendment, the Irrigation District is required to make available to the City 6,500 acre-feet per annum of surplus Mokelumne River water and the City is required to pay to the Irrigation District \$200 per acre-foot, increased annually by an amount not to exceed 3% per year, commencing January 1, 2011 (or \$1.3 million per annum), irrespective of whether the City takes the water available under the WID Agreement, and to construct certain capital improvements to measure and take delivery of the water. The water purchased pursuant to the WID Agreement and Amendment is available to the City from March 1 through July 31 of each year to supplement water sources when pumping from the Delta is restricted. This water is treated at the City's Water Treatment Plant, meets all requirements set by the State and Federal government, and is distributed to City water customers. The City's payments under the WID Agreement are treated as Operation and Maintenance Costs of the Water System.

Groundwater. The groundwater basin underlying San Joaquin County is part of the contiguous Central Valley aquifer system, which supplies groundwater to agricultural, domestic, and industrial water users from Redding to Bakersfield. Groundwater is managed by the City for long term sustainability and use through conjunctive use with the surface water supplies described below. Conjunctive use implies that groundwater will be preserved as the last source of supply that is used if surface water supplies are insufficient to meet demands. The City has undertaken careful planning and study to insure that groundwater extraction yields, on average, do not pose any risk of salinity intrusion or undue risk to private domestic or agricultural wells within the Service Area. In wet years, when surface water is more plentiful, the groundwater basin is allowed to recover through in-lieu recharge (*i.e.*, allowing natural recharge to occur from streams and rivers) and not pumping, and in the dry years, groundwater is extracted to meet the shortfall of surface water supplies.

Historically, groundwater pumping in the area in Eastern San Joaquin County has exceeded the rate of recharge, lowering the groundwater level. In 1980, the DWR published a bulletin that identifies the Eastern San Joaquin Basin as one of the 11 basins in the State in "a critical condition of overdraft." Although the overdraft situation has improved primarily in the urban area due to less groundwater being pumped in recent years, the overdraft of the groundwater supply has caused a deterioration of the water quality in some areas due to the intrusion of poor quality water from the California Delta, primarily in areas south and west of the City. While the Eastern San Joaquin Basin is not an adjudicated groundwater basin, the regional use of the Eastern San Joaquin Basin is guided by the Eastern San Joaquin Groundwater Basin Groundwater Management Plan prepared in 2004 through the Eastern San Joaquin Groundwater Basin Authority. In addition, the City's 2035 General Plan contains a policy that states that the City shall work in concert with other water purveyors in the region to achieve the target yield of 0.6 acre-feet per year of the drinking water aquifer, and limits the long-term average groundwater withdrawals to this target yield.

SEWD Purchased Water. Until 1977, groundwater was the sole source of domestic water for the Stockton Metropolitan area, when a surface water supply was established when the SEWD, a special district water wholesaler, began operating a treatment plant. The SEWD plant currently treats up to 55,000 acre-feet per year of Calaveras River and Stanislaus River water. Following treatment, the water is distributed among the City, Cal Water, and two County Maintenance Districts (collectively, the "Urban Contractors").

The quality of the surface water delivered to the City from SEWD meets all requirements set by the State and federal government. From April 1, 2017 to March 31, 2018, the SEWD water treatment plant delivered 4,640 acre-feet of water, (equal to approximately 16% of total water consumption) all of which was delivered to the City. Pursuant to the SEWD contract, water is allocated annually pro rata

based on the total amount of water produced by each Urban Contractor from all sources during the prior year.

North Water System. The North Water System utilizes both surface and groundwater as sources of supply. Surface water for the North Water System is purchased from the SEWD and provided by the Delta Water Project. Treated water is stored in three sites providing temporary water storage for up to 19 million gallons. In recent years, approximately 72% of the North Water System water has been purchased from SEWD. Groundwater for the North Water System is obtained from 23 City wells that provide approximately 11.1 mgd.

South Water System. The South Water System uses both surface water purchased from the SEWD and groundwater as sources of supply. Approximately 93% of the water for the South Water System is purchased from SEWD. The seven wells in the South Water System provide approximately 14.4 mgd. The City completed the South Stockton Aqueduct in November 2005 to convey surface water directly to the South Water System from SEWD through an underground pipeline thereby reducing reliance on groundwater sources to meet demand.

Diamond Walnut Water System. The Diamond Walnut Water System is supplied by surface water obtained from transferring (or wheeling) SEWD water through the Cal Water System. In December 2010, the City completed a second connection with Cal Water, which added supply reliability to the Diamond Walnut Water System.

Total City water production, extractions, and purchases for the last five fiscal years are set forth below:

Table 4
City of Stockton Water System
Historical Water Production and Purchases
(in million gallons by Fiscal Year) - Acre Feet
(April through March)

Fiscal Year	City Water Production			Total City Production	SEWD Purchases		Total
	Delta Water Treatment Plant ⁽¹⁾	Groundwater Production	Diamond Walnut Water System		North Water System	South Water System	
2013-14	13,988	4,097	266	18,085	377	15,325	33,787
2014-15	10,665	7,093	199	17,748	226	11,546	29,520
2015-16	14,620	6,094	188	20,714	56	4,928	25,662
2016-17	19,543	2,728	248	22,271	0	3,842	26,113
2017-18	21,139	2,699	221	23,839	0	4,640	28,478

⁽¹⁾ Delta Water Treatment Plant commenced operation in May 2012. Includes WID and Delta water.
Source: City of Stockton, Municipal Utilities Department.

Water Treatment and Regulatory Matters

Public drinking water supplies in the State, including the Water System, are subject to increasingly stringent State and federal water quality standards. The City's drinking water is sampled and tested on an ongoing basis from all parts of the Water System to ensure that it meets or surpasses all

primary (health related) and secondary (aesthetic) regulatory standards established by the EPA and the SWRCB.

State Requirements. The City is responsible for complying with all State requirements, including: operational requirements; design and construction standards for dams and reservoirs, distribution systems and pipelines; requirements for control of cryptosporidium and other microbial contaminants, and other water safety issues; and training and other requirements for water treatment and distribution operators. Failure to meet these standards may subject the City to civil or criminal sanctions. SWRCB is the regulatory agency responsible for ensuring the water systems meet the federal regulations outlined above, as well as additional or stricter State regulations.

In accordance with California Code of Regulations, Title 22, SWRCB requires water providers to conduct periodic source water assessment (an “SWA”) to protect the quality of future water supplies. The SWA describes the source of the drinking water, the type of polluting activities that may threaten source water quality and evaluates the vulnerability of the water to those threats.

Federal Requirements. The Water System is subject to regulations imposed by the federal Safe Drinking Water Act, as amended (the “Act”), which is administered by the EPA. In 1986, the United States Congress passed amendments to the Act, wherein 83 potential contaminants of potable water were to be regulated by no later than 1989, with 25 new contaminants to be added, prioritized and regulated every three years thereafter. In 1996, the Act was amended again, reducing the number to five new regulated contaminants every five years. The 1996 amendments also require that each regulation to be reviewed every six years to determine if a revision is warranted. In addition to setting maximum levels for contaminants, the Act also allows regulations to require water treatment plants to meet defined “Treatment Techniques.”

Treatment Process. The City routinely monitors the Water System for the presence of drinking water contaminants, at the 30 mgd ozone and pressure membrane filtration treatment plant constructed as part of the Delta Water Project. See “–Water Supply–Water Sources–Delta Water Project.”,

Testing results from April 18, 2012 to January 17, 2013, indicated that the Water System exceeded the standard or maximum contaminant level for Total Trihalomethane, four organic chemicals which form when disinfectants react with natural organic matter in the water (“TTHM”). The maximum level for TTHM is 80 parts per billion, which is the equivalent of a teaspoon of water in an Olympic-sized swimming pool which was determined by the Locational Running Annual Average (“LRAA”) of samples collected at each sampling location, quarterly, over 12 months. The LRAA level of TTHM collected at four of 19 sample locations ranged from 82 parts per billion to 96 parts per billion. In 2016, the City completed construction of a system to prevent the formation of disinfection by-products in the Delta Water Project and SEWD supply to the North Water System through the use of chloramines. The City’s capital improvement planning efforts included an additional \$4.3 million in funding to complete the North Water System chloramine conversion which was completed in January 2016.. In addition, the City is working with SEWD to modify its treatment process to reduce the potential for disinfection by-products and using its own groundwater sources (free of organic matter) during times when the source waters are high in organic content.

Permits and Other Regulations. The City operates under a SWRCB Water Supply Permit No. 390012 for its water distribution system. The permit does not have an expiration date, and the permit is revised, modified or re-issued as necessary. The City is in compliance with the permit.

Capital Improvement Program

The City maintains a five-year capital plan (the “CIP”) for the budgeting and planning of public projects throughout the City. The adoption of the Citywide CIP is governed by the City Charter. The CIP is updated annually by the City Council based upon available funding sources, anticipated capital needs and project priority.

The most recent CIP for 2018-2023 includes approximately \$24.4 million in Water System projects, excluding projects for which funds have already been appropriated but have not been expended. The total cash needs of the Water System for projects for which funds have not yet been appropriated and for projects for which funds have been appropriated but have not been expended are approximately \$32.3 million. The City expects to fund the Water System projects included in the CIP for 2018-2023 with System Revenues available after the payment of Operation and Maintenance Costs, the Senior Obligations, and the 2018 Installment Payments.

Water System Users

Customer Class. During Fiscal Year 2017-18, the Water System served active connections made up primarily of residential customers. Table 5A summarizes the customer base for the last five Fiscal Years.

Table 5A
City of Stockton Water System
Customer Class by Type of Account and Number of Connections
(Fiscal Years)

Customer Class	2013-14	2014-15	2015-16	2016-17	2017-18
Single Family Residential	42,076	41,400	42,294	42,401	42,383
Multiple Family Residential	4,392	5,115	6,107	6,101	6,088
Commercial/Industrial	2,548	2,447	2,350	2,339	2,204
Other	913	194	21	21	150
Total	49,929	49,156	50,772	50,861	50,825

Source: City of Stockton, Utility Billing Department.

Table 5B summarizes the water sold by customer class for the last five Fiscal Years.

Table 5B
City of Stockton Water System
Water Sold by Customer Class in ccf[†]
(Fiscal Years)

Customer Class	2013-14	2014-15	2015-16	2016-17	2017-18
Residential	9,303,185	8,220,045	7,088,802	7,289,614	8,231,972
Institutional	651,307	608,940	442,461	573,873	632,738
Commercial/Industrial	1,596,477	1,598,432	1,429,848	1,512,098	1,640,471
Irrigation	1,531,137	1,344,966	861,094	1,110,614	1,310,062
Total	13,082,106	11,772,383	9,822,205	10,486,199	11,815,243

[†] One cubic foot (cf) is equal to 7.481 gallons.

Source: City of Stockton, Utility Billing Department.

Largest Users by Flow. The table below shows the 10 largest users of the Water System based on consumption for Fiscal Year 2017-18.

Table 6
City of Stockton Water System
Ten Largest Accounts by Annual Consumption
Fiscal Year 2017-18
(in ccf)⁽¹⁾

Name	Number of Accounts	Type of Business	Fiscal Year 2017-18 Consumption ⁽²⁾	
			Amount	Percent
Runway Drive, LP	2	Bottled Water Manufacturer	278,148	0.28%
Lodi Unified School District	38	Public School	226,186	0.23
San Joaquin County Hospital	13	Medical	111,353	0.11
San Joaquin County Sheriff	8	Law Enforcement	83,622	0.08
Aramark – MC 568	3	Commercial/Industrial Laundry	78,903	0.08
Stockton Unified School District	14	Public School	71,073	0.07
Cintas Corp Site #922	3	Commercial/Industrial Laundry	44,928	0.05
NCYCC and CHCF	2	Youth Correctional Facility	36,460	0.04
Sunpointe Homeowners	1	Home Owners Association	32,930	0.03
Shadow Lake Mobile Home Park	1	Mobile Home Park	26,217	0.03
SUBTOTAL	85		989,820	1.00
All Others	<u>50,740</u>	Various	<u>10,051,898</u>	<u>99.00</u>
TOTAL	50,825		11,041,718	100.00%

(1) One ccf is equal to 748 gallons.

(2) Unaudited.

Source: City of Stockton, Utility Billing.

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Largest Users by Revenue. The table below shows the 10 largest users (unaudited) of the Water System based on revenue for Fiscal Year 2017-18.

Table 7
City of Stockton Water System
Ten Largest Accounts by Revenue
Fiscal Year 2017-18

Name	Number of Accounts	Type of Business	Fiscal Year 2017-18 Revenue ⁽¹⁾	
			Amount	Percent
Runway Drive LP	2	Bottled Water Manufacturer	\$668,336.33	1.36%
Stockton Pavilions LP	1	Apartment Complex	231,054.73	0.47
Aramark – MC 568	3	Commercial/Industrial Laundry	179,414.20	0.37
San Joaquin County Hospital	13	Medical Facility	175,035.60	0.36
San Joaquin County Sheriff	8	Government/Law Enforcement	163,448.21	0.33
Sunpointe Homeowners	1	Home Owners Association	147,479.79	0.30
Oakwood Apartments LLC	16	Apartment Complex	142,181.67	0.29
The Palms at Morada Apt Assoc	3	Apartment Complex	121,774.89	0.25
Downey, Brad	1	Mobile Home Park	114,449.56	0.23
Lodi Unified School District	38	School District	113,868.93	0.23
SUBTOTAL	86		2,057,043.91	4.20
All Others	50,739	Various	<u>46,915,553.00</u>	<u>95.80</u>
TOTAL	50,825		\$48,972,601.91	100.00%

⁽¹⁾ Unaudited.

Source: City of Stockton, Utility Billing.

Outstanding Obligations

The table below summarizes the outstanding Obligations payable from Net System Revenues, as of July 1, 2018.

Table 8
City of Stockton Water System
Outstanding Obligations
(As of October 8, 2018)

Obligation	Total Amount Outstanding	Final Maturity Date (October 1)
Senior Obligations		
Refunded 2002 Bonds ⁽¹⁾	\$4,030,000	2022
Refunded 2005 Bonds ⁽¹⁾	19,055,000	2035
Senior Obligations ⁽²⁾	<u>53,410,000</u>	2040
SUBTOTAL SENIOR OBLIGATIONS	76,495,000	
Subordinate Obligations		
Refunded 2009B Bonds ⁽¹⁾	<u>146,725,000</u>	2038
SUBTOTAL SUBORDINATE OBLIGATIONS	<u>146,725,000</u>	
TOTAL	\$223,220,000	

(1) These bonds will be refunded with a portion of the proceeds of the 2018 Bonds. See "PLAN OF FINANCE."

(2) Consists of the 2010 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS—Senior Obligations."

Source: City of Stockton.

Organization and Management

Organization. The Water System is operated under the management and control of the City Council. Day-to-day management is provided by John Abrew, the Director of Stockton MUD and C. Mel Lytle, PhD., Acting Deputy Director of Water Resources, under the general supervision of the City Manager.

As part of the Stockton MUD, the Water System, with 192 budgeted full-time equivalent employees, 44 in Water Utility, 145 in Wastewater Utility, and three in Stormwater Utility as of June 30, 2018, is managed by the *[Assistant]* Director. The organization of the Water System is presented in the organizational chart on the following page. The Water System also receives services from other departments within Stockton MUD, including engineering, administration, construction, development and environmental control.

The Water System reports to the City Manager and receives guidance from the Water Advisory Group, the City Council Water Committee, the City Council, and the Mayor.

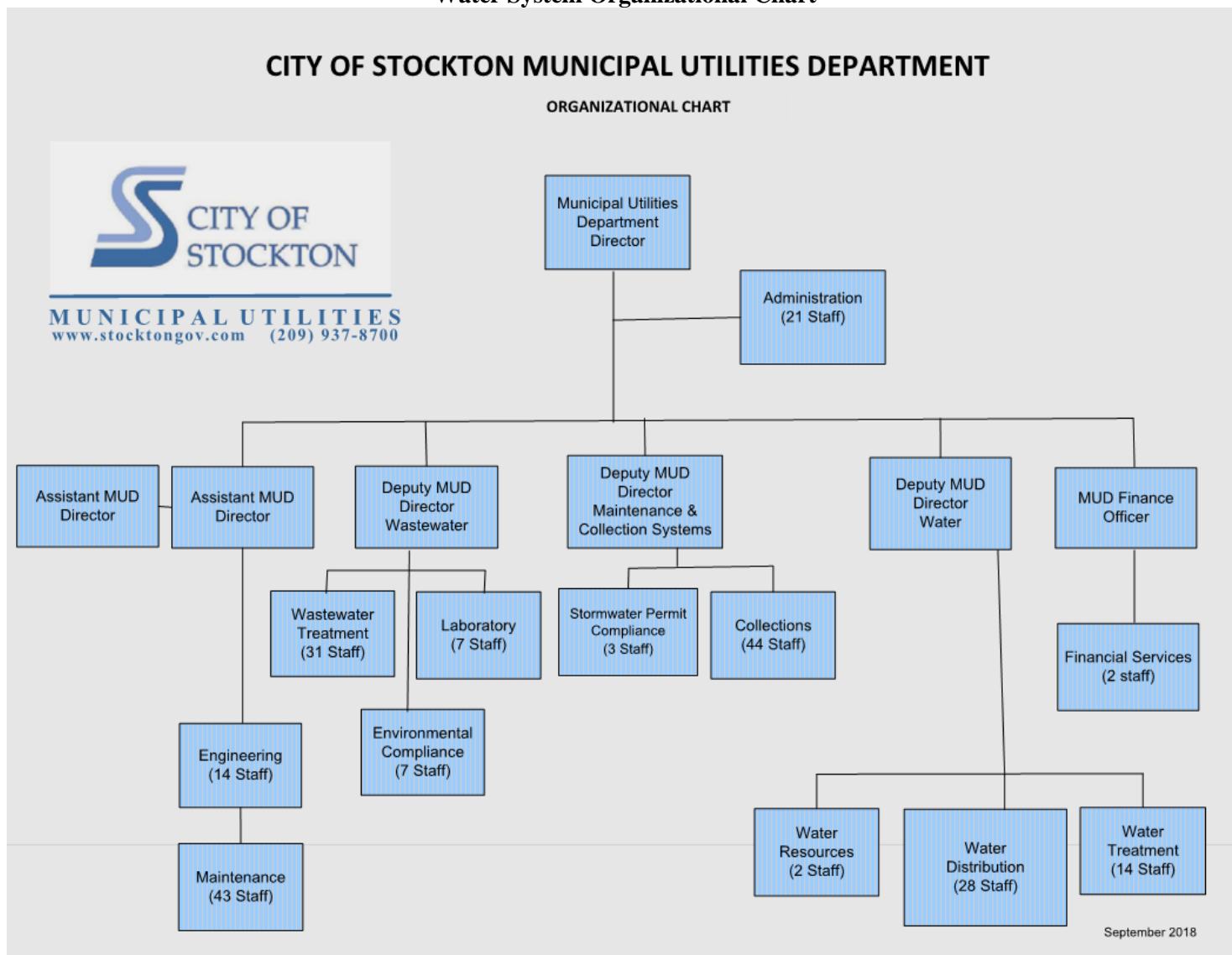
Water Advisory Group. A Water Advisory Group (the “WAG”) was established by Resolution No. 09-0279 adopted by the City Council on August 11, 2009 to foster citizen input and transparency in the operations of Stockton MUD. The WAG reports directly to the Council Water Committee (described below) on current and future issues impacting the Water, Wastewater and Stormwater Utilities of the City, including review of Stockton MUD monthly operations and maintenance reports. The Water Advisory Group is comprised of seven members who reside within one of the three service areas of the City’s three Utilities who serve four-year terms for a maximum of two terms. The Mayor and each Council member nominate one candidate with all nominees ratified by the full City Council.

The Director of Stockton MUD serves ex-officio as Secretary of the Water Advisory Group.

Council Water Committee. The Council Water Committee is one of the nine standing committees of the City Council. This Committee is comprised of three members of the City Council and one alternate appointed by the Mayor and ratified by the full City Council. The Council Water Committee is responsible for all issues related to water, including, but not limited to, water flow availability, projects, regulations, conservation reclamation, and recommendations made by the WAG.

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Water System Organizational Chart



Management. The Water System operates within the legal parameters of the City Charter, the Municipal Code and in accordance with the laws of the State. The Water System is regulated at the State level by the California SWRCB. At the federal level the Water System is regulated by the Environmental Protection Agency. See also “–Water Treatment and Regulatory Matters.”

The Water Utility receives administrative and overhead support services from the City and is charged for these services through an interdepartmental cost allocation system.

Brief resumes of the management of the Water System are set forth below:

Jon Abrew, Director of Municipal Utilities. Mr. Abrew originally joined the City in 2013 as the Deputy Director of Public Works. He was promoted to Director of Municipal Utilities in 2016. As the Director of Municipal Utilities, he is responsible for water treatment & distribution, wastewater treatment, wastewater collections, storm water collections, maintenance & operations, finance, and administrative functions. Mr. Abrew has 20 years of experience which includes serving local municipalities in capacities as City Engineer and City Manager as well as experience in the private sector serving both in the engineering consulting and private development industries. Mr. Abrew received his undergraduate degree from the University of California, Davis, a master’s degree in Civil Engineering from San Jose State University and a master’s degree in Business Administration from California State University, Stanislaus. Mr. Abrew is also a licensed Professional Civil Engineer in the State and has participated in both the American Society of Civil Engineers and the American Public Works Association.

C. Mel Lytle, Ph.D., Deputy City Manager and Acting Deputy Director of Water Resources. Dr. Lytle was assigned Acting Deputy Director of Water Resources duties in July 2018. Dr. Lytle is responsible for planning, organizing, coordinating and directing the activities of the department's drinking water utility which includes water resources planning and operations. Since March 2017, he also serves as a Deputy City Manager. Dr. Lytle is the former Director of Municipal Utilities and served in this capacity between 2012 and 2017. Prior work experience includes serving as the Water Resources Coordinator for San Joaquin County for 10 years and as a Senior Scientist for David Evans and Associates, Inc. Dr. Lytle holds a Bachelor’s of Science and Master’s degrees in Agronomy and a Ph.D. in Botany from Brigham Young University and is a Post-Doctoral Fellow of University of California, Berkeley.

Minnie Moreno, Municipal Utilities Finance Officer. Mrs. Moreno joined the City in April 2016 as the Municipal Utilities Finance Officer. As the Municipal Utilities Finance Officer, she is primarily responsible for all budget and financial transactions within the Municipal Utilities Department totaling \$137 million in expenditures. Prior to joining the City, Ms. Moreno was the Finance Director, Assistant Finance Director, Accountant, Senior Account Clerk respectively for the City of Patterson for a total of 11 years. Prior to this, she worked for two years at the City of Modesto. She also worked two years for Stockman, Fitzgerald, and Johnson CPA’s auditing non-profit corporations and school districts. She has over 26 years of progressively responsible customer service, administrative support, and professional experience with a variety of public and private sector employers. Ms. Moreno holds a Bachelor of Science Degree in Business Administration with a concentration in Accounting from California State University Stanislaus, and she is a member of the California Society of Municipal Finance Officers (CSMFO) and the Government Finance Officers Association (GFOA). Ms. Moreno is also a Notary Public in the State of California.

As of the date of this Official Statement there are two vacant Water System management positions; the Assistant Director of Municipal Utilities for Operations and the Assistant Director of Municipal Utilities for Design-Build. The City is conducting interviews to fill the Assistant Director of Municipal Utilities for Operations, and the Assistant Director of Municipal Utilities for Design-Build

positions. While the two Assistant Director positions are vacant, the duties and responsibilities associated with each position are being performed by an outside consultant.

The City is conducting a national search for a permanent Deputy Director of Water Resources.

Employee Benefits

The City contributes to two pension plans on behalf of Water System employees: The Miscellaneous Plan of the City of Stockton (the “Miscellaneous Plan”), an agent multiple –employer defined benefit plan administered by the California Employees’ Retirement System (“CalPERS”) and the City of Stockton Retirement Enhancement Plan (the “REP”) administered by Public Agency Retirement Services (“PARS”), a multiple-employer agency trust that acts as a common investment and administrative agent for participating public entities in the State.

General. Substantially all full-time City employees, including employees of the Water System, are eligible to participate in retirement benefit plans through a contract with the CalPERS. CalPERS provides retirement, disability, and death benefits to plan members and beneficiaries. CalPERS benefits are payable monthly for life in an amount equal to a certain percent of the employees highest annual salary. Benefit provisions and all other requirements are established by contract with CalPERS, State statute, and City ordinance. CalPERS acts as a common investment and administrative agent for participating public entities within the State. CalPERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments.

The REP is a closed retirement plan that provides retirement benefits for Stockton MUD employees for the period when they worked for OMI-Thames Water Stockton, Inc. to cover retirement benefits between 2003 and 2008. See “–PARS Retirement Enhancement Plan.”

California Public Employees’ Retirement System. *The following information concerning the California Public Employees’ Retirement System is excerpted from publicly available sources, which the City believes to be accurate. CalPERS is not obligated in any manner for payment of debt service on the 2018 Bonds and the assets of CalPERS are not available for such payment. CalPERS should be contacted directly at California Public Employees’ Retirement System, Lincoln Plaza Complex, 400 Q Street, Sacramento, California 95814, Telephone: 888-225 7377 for other information, including information relating to its financial position and investments.*

Set forth below is information with respect to the Miscellaneous Plan for the entire City. CalPERS does not prepare nor are separate reports available for the Water System. The City can only allocate costs of the Miscellaneous Plan to the Water System to the extent such costs are allocable to employees of the Water System.

The Miscellaneous Plan is available to full-time employees not enrolled in the Safety Plan. Part-time employees must meet specific criteria for participation. City employees are eligible for service or normal retirement at age 55 or older with a minimum of five years CalPERS service. The contribution requirements of the plan members and the City are established by CalPERS and may be amended.

As of June 30, 2018, there were a total of 904 full-time equivalent City employees participating in the Miscellaneous Plan of which 44 (or approximately 4.87%) were employed by the Water System.

Benefits Provided. CalPERS provides service retirement and disability benefits, the annual cost of living adjustments and death benefits to plan members, who must be public employees and

beneficiaries. The provisions and benefits for the Miscellaneous Plan in effect at June 30, 2016, are summarized as follows:

Miscellaneous Plan

<u>Hire Date</u>	<u>Prior to January 1, 2014</u>	<u>After January 1, 2014</u>
Benefit Vesting Schedule	5 years service	5 years service
Benefit Formula	Tier I: 2% @ 55 years of age Tier II: 2% @ 60 years of age	2% @ 62 years
Benefit Payments	monthly for life	monthly for life
Required Employee Contribution Rates	7.00%	6.25%
Required Employer Contribution Rates	20.090%	20.090%

Employees Covered. At June 30, 2017 the following Miscellaneous Plan employees were covered under benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,398
Inactive employees entitled to but not yet receiving benefits	528
Active employees	<u>938</u>
TOTAL	2,864

Contributions. The City establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by the employee during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2018, the total Miscellaneous Plan employer contribution rate was 25.084% of wages and for Fiscal Year 2018-19, the employer contribution rate is estimated to be 26.652% using a discount rate of 7.375%. See “–Discount Rate.”

Net Pension Liability. The City’s net pension liability was measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures.

Actuarial Assumptions. The total pension liability on June 30, 2014, the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Miscellaneous Plan

Valuation Date	6/30/2015
Measurement Date	6/30/2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies ⁽¹⁾
Investment Rate of Return	7.50% ⁽²⁾
Mortality	see note ⁽³⁾

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries BB. For more details on this table, refer to the 2014 experience study report.

The actuarial assumptions used on June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011. The actuarial experience study can be obtained by contacting CalPERS.

Discount Rate. The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of currently active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of real arithmetic rates of return for each major asset class are summarized in the following table:

Miscellaneous Plan

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	51.9%	5.25%	5.75%
Global Fixed Income	20.3	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	9.0	6.83	6.95
Real Estate	10.8	4.50	5.13
Infrastructure and Forestland	0.5	4.50	5.09
Liquidity	<u>1.5</u>	(0.55)	(1.05)
TOTAL	100.0%		

On December 21, 2016, the CalPERS Board of Administration lowered the discount rate from 7.50% to 7.00% using a three year phase-in beginning with the June 30, 2016 actuarial valuations. The discount rate will be 7.25% for the 2017 valuation and 7.00% for the 2018 valuation.

Changes in the Net Pension Liability. As of June 30, 2016, after employer contributions of \$13,879,482, employee contributions of \$3,971,482, and investment income of \$2,491,249, the Net Pension Liability for the Miscellaneous Plan increased to \$162,194,089 from \$133,763,663 as of June 30, 2015. Details in the changes in Net Pension Liability are presented in Note 11 of the City's Fiscal Year 2016-17 Comprehensive Annual Financial Report available from the City.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following table presents the Net Pension Liability of the City for the Miscellaneous Plan, calculated using the discount rate of 7.65%, as well as what the Net Pension Liability of the City would be if it were calculated using a discount rate that is one-percentage point lower (6.75%) or one-percentage point higher (8.75%) than the current rate.

Miscellaneous Plan

	<u>1% Decrease Rate = 6.65%</u>	<u>Current Discount Rate = 7.65%</u>	<u>1% Increase Rate = 8.65%</u>
Net pension liability	\$247,563,708	\$162,194,089	\$91,400,450

Miscellaneous Plan Fiduciary Net Position. Detailed information about the fiduciary net position for the Miscellaneous Plan is available from CalPERS in the separately issued CalPERS financial report.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. Information on the deferred outflows of resources and deferred inflows of resources related to pensions for the Miscellaneous Plan is presented in Note 11 of the City's Fiscal Year 2016-17 Comprehensive Annual Financial Report available from the City.

PARS Retirement Enhancement Plan. In 2003, the City awarded a 20-year Service Contract for Wastewater, Water, and Stormwater Utilities Capital Improvements and Asset Management to OMI/Thames Water Stockton ("Service Contract"). Shortly after entering into the agreement the City was served with a complaint alleging that the City violated the California Environmental Quality Act ("CEQA") by awarding the Service Contract to OMI/Thames Water Stockton ("OMI-Thames") to

manage and operate the City's utilities without conducting an environmental review assessing the risks of a public-private partnership. The litigation was settled in 2007 and, in 2008, the City resumed operation and maintenance of the Water System, the Wastewater System and the Stormwater System from OMI/Thames and terminated the Service Contract.

Plan Description. The City entered into an agreement with PARS to contribute to a supplemental plan for employees joining or re-joining City service after having been employed between 2003 and 2008 by OMI-Thames. OMI-Thames employees did not earn CalPERS service credit during the period of time OMI-Thames operated the City utilities. Upon retirement, the REP benefits will supplement any CalPERS retirement for which those particular employees are eligible. Eligibility for REP, other than employment with OMI-Thames between 2003 and 2008, is defined as concurrent retirement with CalPERS and the City upon attaining age 55 and a minimum of five years of full-time continuous service with the City, with at least one year of continuous City service after March 1, 2008.

As of June 30, 2018, a total of **[84]** employees were covered by the REP, consisting of **[36]** inactive employees or beneficiaries currently receiving benefits and **[48]** active employees. *[Update with 2018 data.]*

Contributions. The City establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by the employee during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability. The City's net pension liability was measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2015, rolled forward to June 30, 2017, using standard update procedures.

Actuarial Assumptions. The total pension liability on June 30, 2016, the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Enhancement Plan</u>
Valuation Date	6/30/2016
Measurement Date	6/30/2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Payroll Growth	N/A
Projected Salary Increase	3/5% - 9.9% ⁽¹⁾
Investment Rate of Return	7.00%
Mortality	⁽²⁾

(1) Depending on years of service.

(2) Pre-retirement: CalPERS Miscellaneous Non-Industrial Rates. Post-Retirement: CalPERS 1997-2011 Healthy Retiree Table (sex-distinct) projected using Scale AA and base year of 2008.

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those

assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of currently active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Additional information with respect to the REP, including changes in net pension liability, target investment allocation, sensitivity of the net pension liability, changes in the discount rate and deferred outflows of resources and deferred inflows of resources related to pension can be found in Note 11 to the Audited Financial Statements of the City at www.stocktongov.com.

Health Insurance Premiums. The City also provides health benefits to certain employees and their dependents for medical, dental and vision care. For Fiscal Years 2015-16, 2016-17 and 2017-18, the City paid premiums in the amount of \$____, \$____, and \$____, respectively for Water Utility employees. For Fiscal Year 2018-19, the amount paid for premiums for Water Utility employees is budgeted to be \$____. The City pays the a portion of the premium for health benefits for a small group of Stockton MUD employees who were reinstated to City employment on March 1, 2008, when Stockton MUD operations were transferred back to the City. The remainder is paid for by the employee and varies by the number of dependent coverage. Each employee and dependent is covered by a life insurance policy and the employee also is covered by a long-term disability policy.

Post Employment Health Care Benefits. The City does not provide post-employment health care benefits to its retirees, and does not have any liability listed in its financials to account for such a benefit.

WATER SYSTEM FINANCES

Rate Setting, Billing and Collection Procedures

Rate Setting Procedure. In accordance with California law, the City Council may, from time to time and at its discretion, fix, alter, change, amend or revise any user fees, connection charges and all other fees related to the Water Utility. No other governmental authority, board, body or commission has jurisdiction over or is required to approve the Water System rates established by the City Council.

Bills for City utility services are issued monthly by the water service provider, with the exception of industrial water customers and commercial and industrial stormwater customers, who are billed monthly on a separate bill by the City. Within the Service Area, customers are billed for all applicable utility services (water, wastewater, storm water, and garbage collection) on a unified bill issued by the City. Cal Water also issues a unified bill to customers within its service area that includes charges for water and other applicable City utility services (wastewater, storm water, garden refuse and garbage).

Utility bills are due 18 days from the date of billing and become delinquent 25 days thereafter. If such bills remain unpaid on the 26th day after billing a 10% penalty is assessed, and an additional 1% penalty is assessed for each additional month that charges remain unpaid. Delinquent notices for past due accounts are mailed approximately 10 days after an account becomes past due. If the account remains unpaid, a final termination notice is mailed to the service address approximately five days prior to water service being terminated. If water service is terminated due to unpaid delinquent charges, water service is not be restored or provided until all delinquent charges and associated service charges and fees, deposits and reconnection charges have been paid in full, or an amortization agreement has been authorized by the City or its authorized agent for billing and collection pursuant to Sections 779 or 10010 of the State Public Utilities Code or other applicable statute or regulation.

Water Rate Study. The City contracted with HDR Engineering, Inc. (“HDR”) to complete a comprehensive Water Rate Cost of Service Study (the “2016 Water Rate Study”). In accordance with the California state law, requiring that billing for water service be based on water consumption, the Water Enterprise used the results of the 2016 Water Rate Study to establish equitable rate schedules for both consumption-based and flat-rate water usage. The 2016 Water Rate Study included review of a 10-year CIP to ensure adequate future revenue to construct and maintain the Water System infrastructure. The 2016 Water Rate Study can be viewed online at www.stocktongov.com/files/WaterRateStudy2016.pdf or a copy can be obtained by contacting the City Clerk, City of Stockton, 425 North El Dorado Street, Stockton, California 95202.

On June 28, 2016, the City Council approved a resolution (“Resolution No. 2016-06-28-1601”), authorizing annual water rate increases based upon a consumption-based, fixed rate model, that became effective commencing August 1, 2016 and on each July 1 thereafter, from July 1, 2017 through July 1, 2020 as recommended in the 2016 Water Rate Study. The rates are comprised of a fixed monthly rate charge determined by meter size, a variable metered charge based upon each Unit of water (748 gallons) consumed used per month, and a drought surcharge (the “Drought Surcharge”) per Unit when water conservation stages are in effect. In Resolution No. 2016-06-28-1601, the City Council also declared that effective August 1, 2016, a Stage 1 Drought Surcharge would be implemented and remain in effect until the City Council determines or otherwise declares the Stage 1 water shortage is over or that the Drought Surcharge is no longer necessary. See “–Rates, Fees and Charges–*Water Conservation and Drought Surcharge.*”

The adopted rates grouped customers into four classes of service (single family, multi-family, non-residential, and irrigation) that reflect the varying consumption patterns and Water System requirements of each class of service.

Rates, Fees and Charges

The Water System receives moneys from two primary sources: (i) monthly water service charges and connection fees; and (ii) interest income.

Water Service Charges. Customers of the Water System are billed monthly water service charges based on a fixed monthly service charge based on meter size and a consumption charge based on water usage.

Historic and Current Rates. Pursuant to Resolution No. 2016-06-28-160, the first increase in water rates of 18.5% took effect on August 1, 2016, with subsequent increases of 11.0% for Fiscal Year 2017-18, and 3.0% annually for Fiscal Years 2018-19 through 2020-21. The adopted rates are comprised of: (i) a fixed charge based upon meter size, (ii) a consumption based charge based upon a two block tiered rate for single family residences and a seasonal rate structure (winter/summer) for all other customer classes; and (iii) the Drought Surcharge triggered by various levels of reductions in consumption, to fairly reflect the costs of providing service and fairly appropriate costs to customers. The Drought Surcharge (is designed to ensure that the City collects sufficient revenues when consumption declines due to voluntary or mandatory conservation resulting from drought conditions, or other water shortage emergencies. The Drought Surcharge is based on reductions in blocks of 10%, commencing at a 10% reduction up to a 50% reduction in consumption. Table 9 sets forth the approved Water System rates for Fiscal Years 2017-18 through 2020-21.

Table 9
City of Stockton
Water System
Schedule of Rates and Charges and Effective Dates

Rates and Effective Dates for Monthly Fixed Meter Service Charge (\$/Meter Size)

Effective Date: <u>Meter Size (in inches)</u>	Effective Date July 1			
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
1" and less	\$31.00	\$31.95	\$32.90	\$33.90
1-1/2"	62.00	63.90	65.80	67.80
2"	99.20	102.24	105.28	108.48
3"	186.00	191.70	197.40	203.40
4"	310.00	319.50	329.00	339.00
6"	620.00	639.00	658.00	678.00
8"	992.00	1,022.40	1,052.80	1,084.80
10"	1,426.00	1,469.70	1,513.40	1,559.40
12"	2,092.50	2,156.63	2,220.75	2,288.25

Rates and Effective Dates for Monthly Consumption Charge (\$/CCF)

Customer Class

Single Family

Tier 1: 0-15 CCF	\$2.23	\$2.31	\$2.39	\$2.47
Tier 2: 15+ CCF	2.66	2.76	2.86	2.95

Multi-Family

Winter (Oct – Apr)	\$1.90	\$1.97	\$2.04	\$2.11
Summer (May – Sep)	2.07	2.14	2.22	2.30

Non Residential

Winter (Oct – Apr)	\$1.90	\$1.97	\$2.04	\$2.11
Summer (May – Sep)	2.21	2.29	2.38	2.46

Irrigation

Winter (Oct – Apr)	\$1.99	\$2.06	\$2.13	\$2.20
Summer (May – Sep)	2.53	2.62	2.70	2.79

Rates and Effective Dates for Drought Surcharges (\$/CCF)

Customer Class, Drought Stage, and Reduction Level	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Single Family				
Stage 1 (10%)	\$0.27	\$0.28	\$0.29	\$0.30
Stage 2 (20%)	0.60	0.62	0.64	0.66
Stage 3 (30%)	1.03	1.07	1.11	1.15
Stage 4 (40%)	1.60	1.66	1.72	1.78
Stage 5 (50%)	2.40	2.49	2.58	2.66
Multi-Family				
Stage 1 (10%)	\$0.22	\$0.23	\$0.24	\$0.25
Stage 2 (20%)	0.50	0.52	0.54	0.56
Stage 3 (30%)	0.86	0.89	0.92	0.95
Stage 4 (40%)	1.33	1.38	1.43	1.48
Stage 5 (50%)	2.00	2.07	2.15	2.23
Non Residential				
Stage 1 (10%)	\$0.23	\$0.24	\$0.25	\$0.26
Stage 2 (20%)	0.52	0.54	0.56	0.58
Stage 3 (30%)	0.90	0.93	0.97	1.00
Stage 4 (40%)	1.40	1.45	1.50	1.55
Stage 5 (50%)	2.10	2.18	2.26	2.34
Irrigation				
Stage 1 (10%)	\$0.26	\$0.27	\$0.28	\$0.29
Stage 2 (20%)	0.59	0.61	0.63	0.65
Stage 3 (30%)	1.02	1.06	1.10	1.14
Stage 4 (40%)	1.58	1.65	1.70	1.76
Stage 5 (50%)	2.38	2.47	2.56	2.65

Source: City of Stockton, Municipal Utilities Department.

Connection Fees. One-time charges (“Connection Fees”) are levied by the City to recover costs incurred by the Water System for providing capacity in the Water System required by new users. The collection of such fees is therefore subject to the pace of development in the Service Area.

Connection Fees have been in effect in the City since Fiscal Year 1974-75. On July 6, 1988, the City Council adopted an ordinance creating and establishing the authority for imposing and charging public facilities fees (“Public Facilities Fees”). On October 12, 1988, the City Council adopted a resolution establishing and imposing Public Facilities Fees, including Connection Fees, to be paid at the time of issuance of a building permit for development and are used to finance the acquisition, construction and improvement of public facilities needed as a result of new development.

As of July 1, 2018, when combined with the City’s existing Water System connection charge in the amount of \$2,217.84, the New Melones Surface Water Supply Fee collected on behalf of SEWD in the amount of \$4,587.00 and the Delta Water Supply Project Surface Water Supply Fee (the “Delta Surface Water Supply Fee”) of \$5,223.03 (see “–Service Charges”), the cost of connecting a new single family residence for water service is \$12,027.87.

The historical connection fee revenues received by the City are set forth in the table below.

Table 10
City of Stockton Water System
Historical Connection Fee Revenues
(Fiscal Year Ended June 30)
(\$ in thousands)

	2013-14	2014-15	2015-16 ⁽²⁾	2016-17	Unaudited 2017-18 ⁽²⁾
Revenues	\$17,957	\$466,174	\$413,471	\$434,380	\$755,083
Delta Surface Water Supply Fee	<u>184,011</u>	<u>613,461</u>	<u>884,865</u>	<u>915,185</u>	<u>2,249,674</u>
TOTAL	\$201,968	\$1,079,635	\$1,298,336	\$1,349,565	\$3,004,757

Source: City of Stockton, Municipal Utilities Department.

Interest Income. The Water Utility receives additional income from interest income earned on funds available for use in operations and for application to capital facilities projects.

Backflow Device Testing Charges. The City imposes a \$71.25 fee for testing backflow prevention devices (that protect potable water from backflow of bacterial contamination into the Water System).

Private Fire Hydrant and Protection Services. Certain customers of the Water System (generally, large industrial businesses or condominium complexes) are required by the State fire code to maintain private fire hydrants specifically for the benefit of such customer. These fire hydrants are located on private property, not in the public right-of-way. Customers are charged for this service based upon the number and size of the hydrant.

Delinquencies. Set forth in the table below is a summary of the amounts billed for charges for services and recognized as uncollectible for the last five Fiscal Years. Since Fiscal Year 2013-14, the amount recognized as uncollectible has exceeded 1%, and peaked at 2.47% in Fiscal Year 2014-15. Since then, the rate has steadily declined to 1.20% for Fiscal Year 2017-18. The delinquency rate was a result of increased foreclosure activity within the City following the Great Recession and financial crisis that began in 2007.

Table 11
City of Stockton Water System
Uncollectible Charges for Services
(Fiscal Years)
(\$ in 000s)

	2013-14	2014-15	2015-16	2016-17	2017-18 [†]
Total Billed	\$37,085	\$34,707	\$32,064	\$39,992	\$48,972
Amount Uncollected	\$717.3	\$858.2	\$500.0	498.4	580.2
Uncollectible %	1.93%	2.47%	1.56%	1.25%	1.20%

[†] Preliminary.

Source: City of Stockton, Municipal Utilities Department.

Comparable Rates and Fees

Comparative Monthly Water Service Charges. The City's standard residential charges are set forth in Table 12 below with a comparison to other comparable, neighboring cities.

Table 12
City of Stockton Water System
Current Monthly User Fee Comparison
Residential Service
(As of July 1, 2018)

City	Monthly User Fees ⁽¹⁾
Brentwood	93.72
Cal Water (Stockton)	94.66
Lathrop	82.59
Modesto	57.87
Stockton⁽²⁾	80.43
Tracy	40.80
Lodi	44.47
Manteca	37.75

⁽¹⁾ Assumes ¾" meter and 20 CCF (14,960 gallons) of usage.

⁽²⁾ Current as of July 1, 2018.

Source: City of Stockton, Municipal Utilities Department.

Comparative Connection Fees. The current Connection Fees and a comparison of the City's Connection Fees to those of other Central Valley and Northern California cities are set forth in Table 13. City Connection Fees are included as part of the City's Water System Net Revenues which are used, in part, to pay the Installment Payments on the Bonds.

Table 13
City of Stockton Water System
Current Water Connection Fees Comparison
(As of July 1, 2018)

City	Water Connection Fee(s)
Pleasanton ⁽¹⁾	29,370.00
Stockton⁽²⁾	12,027.87
Brentwood	11,691.39
Lathrop ⁽¹⁾	5,580.00
Manteca	4,603.00
Modesto	3,310.00

⁽¹⁾ The connection fee varies depending upon to the location of the property.

⁽²⁾ Includes water connection fee, New Melones Surface Water Supply fee and Delta Surface Water Supply Fee. The water connection fee alone is \$2,217.84. Current as of July 1, 2018.

Source: City of Stockton, Municipal Utilities Department.

Historical Debt Service Coverage

Table 14 sets forth historical revenues, expenses (based upon audited financial information) and debt service coverage for Fiscal Year 2013-14 through Fiscal Year 2016-17 and unaudited information for Fiscal Year 2017-18.

Table 14
City of Stockton Water System
Historical Revenues, Expenses and Debt Service Coverage
(Fiscal Years Ended June 30)

	2013-14	2014-15	2015-16	2016-17	Unaudited 2017-18
Revenues:					
Service Charges/User Fees	\$37,084,796	\$34,322,998	\$32,542,168	\$41,516,569	\$49,397,250
Connection Fees	201,963	1,079,635	1,298,336	1,349,565	3,410,813
Interest Earnings ⁽¹⁾	933,856	677,482	1,175,374	(14,989)	163,308
Miscellaneous Revenues	769,935	736,246	734,641	791,562	1,148,326
Rate Stabilization Deposit	—	5,60,000	2,155,539	2,100,000	—
Total Revenues	38,990,055	42,516,361	37,906,058	41,542,707	54,119,697
Expenses ⁽²⁾	19,762,317	22,830,378	23,311,842	18,301,743	22,817,025
Net System Revenues	19,228,238	19,585,983	14,594,215	23,240,743	31,302,672
Parity Obligation Debt Service:					
Federal Drought Relief Act Loan	95,342	95,342	95,342	86,812 ⁽⁸⁾	—
2002 Bonds ⁽³⁾	1,112,038	1,115,188	328,460 ⁽⁷⁾	290,223 ⁽⁷⁾	1,110,063
2005 Bonds ⁽³⁾	1,150,313	1,150,313	1,150,313	1,150,313	1,180,866 ⁽⁹⁾
Water Revenue Bonds, Series 2010A (in Variable and Fixed Rate mode) ⁽⁴⁾	1,982,924	3,489,638	3,319,838 ⁽⁷⁾	3,314,438 ⁽⁷⁾	3,441,838
Total Parity Obligations Debt Service	4,181,946	5,850,841	4,893,953	4,841,786	5,732,767
Available Revenues	15,046,292	13,735,502	9,700,263	18,398,957	25,569,905
Subordinate Obligations Debt Service:					
Water Revenue Bonds, Series 2009A	3,809,350	3,805,450	282,750 ⁽⁷⁾	— ^{(7),(8)}	—
Water Revenue Bonds, Series 2009B	11,928,589	11,928,589	11,928,589	11,928,589	15,646,813
Less: Federal Interest Subsidy Series 2009B ⁽⁵⁾	(3,864,991)	(3,924,373)	(3,776,328)	(3,889,251)	(3,855,019)
Water Revenue Bonds, Series 2009B Net Debt Service	8,063,598	8,004,216	8,152,261	8,039,338	11,791,794
Total Subordinate Obligations Debt Service	11,872,948	11,809,666	8,435,011	8,039,338	11,791,794
Total Debt Service (All Obligations)	16,054,894	17,660,147	13,328,964	12,881,124	17,524,561
Parity Debt Service Coverage	4.60	3.35	2.98	4.80	5.46
Subordinate Debt Service Coverage ⁽⁶⁾	1.27	1.16	1.15	2.29	2.17
Debt Service Coverage (All Obligations)	1.20	1.11	1.09	1.80	1.79

(1) Includes interest earnings on the bond reserve funds for the Parity and Subordinate Obligations.

(2) Excludes depreciation, capital, expenditures, debt service.

(3) See "PLAN OF FINANCE—Refunded Bonds."

(4) Includes letter of credit and remarketing fees of \$667,018 and less capitalized interest of \$158,671 in Fiscal Year 2013-14. These bonds were converted to fixed rate in November 2013.

(5) The Series 2009B Bonds were issued as Build America Bonds and received a 35% federal interest subsidy, which subsidy was reduced due to federal sequestration in years 2014-2017.

(6) Subordinate Debt Service Coverage is calculated net of reserve fund earnings applied to debt service.

(7) The debt service shown is net of the October 1, 2015 and October 1, 2016 payments that were defeased.

(8) This obligation was repaid during Fiscal Year 2016-17.

(9) Excludes non-scheduled prepayment of \$4.9 million principal amount of bonds from unused project funds.

Sources: City of Stockton for revenues and expenses based upon the audited financial statements and Del Rio Advisors, LLC, for debt service coverage information.

The audited financial statements for the Water System for the Fiscal Year ended June 30, 2017 are attached as APPENDIX B—“AUDITED FINANCIAL STATEMENTS OF THE CITY OF STOCKTON FOR THE YEAR ENDED JUNE 30, 2017.” These financial statements present only the Water Fund and are not intended to present the financial position of the City and the results of its operations and the cash flows of its proprietary fund types for which, as of the date of this Official Statement, no audited financial statements are available for any period after the Fiscal Year ended June 30, 2017. The City expects that its comprehensive audited financial statements for Fiscal Year 2017-18 will be available by the end of calendar year 2018 and will be filed with the Municipal Securities Rulemaking Board when available.

Projected Debt Service Coverage

Revenues, expenses and debt service coverage for Fiscal Years 2018-19 (budgeted) through 2020-21 (projected) are set forth in Table 15 on the following page based on certain assumptions as described in the footnotes. The following table assumes no optional or special mandatory redemption of the 2018 Bonds [or prepayment of the Senior Obligations.] *The following projections are based on the current circumstances of the City and currently available information and are believed to be reasonable. The projections may be affected by various factors and there can be no assurance that they will be achieved and any variation from projected operating results may be material.*

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Table 15
City of Stockton Water Utility Fund
Projected Pro Forma and Debt Service Coverage Calculation
(\$ in thousands)

	(Budgeted) 2018-19	(Projected) 2019-20	(Projected) 2020-21	(Projected) 2021-22	(Projected) 2022-23	(Projected) 2023-24
System Revenues						
Charges for Services ⁽¹⁾	\$48,557,218	\$50,013,935	\$51,514,353	\$51,514,353	\$51,514,353	\$51,514,353
Connection Charges ⁽²⁾	2,127,700	2,127,700	2,127,700	2,127,700	2,127,700	2,127,700
Interest Income ⁽²⁾	413,453	413,453	413,453	413,453	413,453	413,453
Other Revenues	1,056,358	1,066,922	1,077,591	1,088,367	1,099,250	1,110,243
Rate Stabilization Deposit	—	—	—	—	—	—
TOTAL SYSTEM REVENUES	52,154,729	53,622,009	55,133,096	55,143,872	55,154,756	55,165,748
Operations and Maintenance						
General Operations ⁽³⁾	13,730,797	14,225,106	14,737,209	15,267,749	15,817,388	16,386,814
General and Administrative ⁽³⁾	4,137,110	4,286,046	4,440,344	4,600,196	4,765,803	4,937,372
Purchased Water ⁽⁴⁾	10,700,000	11,395,500	12,136,208	12,925,061	13,765,190	14,659,927
TOTAL OPERATING EXPENSES	28,567,907	29,906,653	31,313,762	32,793,007	34,348,382	35,984,114
Net System Revenues⁽⁵⁾	23,586,822	23,715,356	23,819,335	22,350,865	20,806,374	19,181,634
Parity Obligations Debt Service						
Series 2002A ⁽⁶⁾	1,113,220	—	—	—	—	—
Series 2005 ⁽⁶⁾	1,033,919	—	—	—	—	—
Series 2010 (Remarketed 2013)	3,441,538	3,441,038	3,445,238	3,439,238	3,443,038	3,443,038
PARITY OBLIGATIONS NET DEBT SERVICE	5,588,677	3,441,038	3,445,238	3,439,238	3,443,038	3,443,038
Parity Obligations Debt Service Coverage	4.22x	6.89x	6.91x	6.50x	6.04x	5.57x
Available Revenues⁽⁷⁾	17,998,145	20,274,318	20,374,097	18,911,627	17,363,336	15,738,596
Subordinate Obligations Debt Service						
Series 2009B ⁽⁸⁾	11,668,305	—	—	—	—	—
Series 2018A	2,605,263	12,000,375	11,800,875	11,813,375	11,813,375	11,534,125
TOTAL SUBORDINATE OBLIGATIONS NET DEBT SERVICE	14,273,568	12,000,375	11,800,875	11,813,375	11,813,375	11,534,125
Subordinate Obligations Debt Service Coverage	1.26x	1.69x	1.73x	1.60x	1.47x	1.36x
Net System Revenues Available for Capital and Other	\$3,724,577	\$8,273,943	\$8,573,222	\$7,098,252	\$5,549,961	\$4,204,471

- (1) Reflects adopted rate increases of 3.00% for Fiscal Years 2019-20 and 2020-21 and held constant thereafter.
- (2) Held constant for pro forma period based on budgeted Fiscal Year 2018-19 estimates.
- (3) Escalated at 3.6% each Fiscal Year for the pro forma period.
- (4) Escalated at 6.5% each Fiscal Year for the pro forma period.
- (5) Equals Total System Revenues less Total Operating Expenses.
- (6) Reflects amounts paid prior to issuance of 2018 Bonds and refunding of the Refunded 2002 Bonds. See "PLAN OF FINANCE—Refunded Bonds."
- (7) Represents the amounts available to pay Subordinate Obligations Debt Service after the payment of Parity Obligations Debt Service.
- (8) Represents debt service on the 2009B Bonds, net of the 35% Build America Bond subsidy. See "PLAN OF FINANCE—Refunded Bonds."

Sources: City of Stockton for revenues and expenses and Del Rio Advisors, LLC, for debt service coverage information.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“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 2018 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 2018 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the 2018 Bonds is less than the amount to be paid at maturity of such 2018 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2018 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 2018 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 2018 Bonds is the first price at which a substantial amount of such maturity of the 2018 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 2018 Bonds accrues daily over the term to maturity of such 2018 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 2018 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2018 Bonds. Beneficial Owners of the 2018 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2018 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2018 Bonds in the original offering to the public at the first price at which a substantial amount of such 2018 Bonds is sold to the public.

2018 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 2018 Bonds. The Authority and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2018 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 2018 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2018 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 2018 Bonds may adversely affect the value of, or the tax status of interest on, the 2018

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 2018 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 2018 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 2018 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. 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 2018 Bonds. Prospective purchasers of the 2018 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 2018 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 Authority or 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 Authority and the City have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2018 Bonds ends with the issuance of the 2018 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the City or the Beneficial Owners regarding the tax-exempt status of the 2018 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the City and their 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 Authority or the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2018 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 2018 Bonds, and may cause the Authority, the City or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

The validity of the 2018 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A copy of proposed form of Bond Counsel opinion is contained in APPENDIX E to this Official Statement. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority and the City by the City Attorney and by Schiff Hardin LLP, San Francisco, California, Disclosure Counsel, and for the Underwriters by Nossaman LLP,

Irvine, California, Underwriters' Counsel. Payment of the fees of Bond Counsel, Disclosure Counsel and Underwriter's Counsel are contingent upon the issuance and delivery of the 2018 Bonds.

LITIGATION

[Confirm]

At the time of delivery of the 2018 Bonds, Counsel to the Authority and the City Attorney will deliver opinions to the initial underwriter of the 2018 Bonds that there is no action, suit, litigation, inquiry or investigation before or by any court, governmental agency, public board or body served, or to the best knowledge of the Authority or the City threatened, against the Authority or the City in any material respect affecting the existence of the Authority or the City or the titles of their officers to their respective offices or seeking to prohibit, restrain or enjoin the sale or delivery of the 2018 Bonds, the execution and delivery of the 2018 Indenture, the 2018 Installment Purchase Agreement or the payment of 2018 Installment Payments or challenging, directly or indirectly, or the proceedings to purchase the projects financed with the proceeds of the Refunded Bonds from the Authority.

The Authority

No litigation is pending with service of process having been accomplished or, to the knowledge of the Authority, threatened, concerning the validity of 2018 Indenture or 2018 Installment Purchase Contract.

The City

General. There is no litigation pending with service of process having been accomplished or, to the knowledge of the City, threatened, questioning the existence of the City, or the title of the offices of the City to their respective offices. Except as otherwise disclosed in this Official Statement, there is no litigation pending or, to the knowledge of the City, threatened, questioning or affecting in any material respect the financial condition of the City's Water System or the validity of the 2018 Bonds, the 2018 Installment Purchase Contract, or the 2018 Indenture.

The City is involved in ongoing contract negotiations with employee bargaining units and also has various legal actions pending against the City. Neither the resolution of the contract negotiations nor the aggregate amount of the uninsured liabilities of the City which may result from all legal claims currently pending against it will, in the opinion of the City, materially affect the financial condition of the City's Water System or impair its ability of the City to make the 2018 Installment Payments under the 2018 Installment Purchase Contract.

SEWD Litigation. In December 2017, SEWD filed an action (*Stockton East Water District v. City of Stockton, California Water Service Company, San Joaquin County, Lincoln Village Maintenance District, and Colonial Heights Maintenance District*, Case No. STK-CV-UOCT-2017-0013066 (the "Complaint")) seeking an order that the defendants (referred to as the "Urban Contractors") comply with SEWD's interpretation of the terms of the Second Amended Contract that would require each Urban Contractor to: (i) accept the amount of water allocated to it pursuant to the formula applied by SEWD as described in the Second Amended Contract; and (ii) pay the full amount of the invoice billed to each Urban Contractor based on the amount of water allocated. The Complaint does not seek any monetary damages.

Collectively, the Urban Contractors are accepting and paying for the full allocation of water as allocated by SEWD under the Second Amended Contract. However, the Urban Contractors entered into an agreement (the "2012 Allocation Agreement") without the consent of SEWD that reallocates the

amount of water and the corresponding payments made by each Urban Contractor. The reallocation, principally between the City and Cal Water, differs from the calculations prepared by SEWD pursuant to the terms of the Second Amended Contract. SEWD alleges that the 2012 Allocation Agreement conflicts with the Second Amended Contract, and purports to modify terms of the Second Amended Agreement in which SEWD alleges it has an interest, and amounts to a breach of the Second Amended Contract, resulting in injury to SEWD.

The City believes that the eventual disposition of this case, even if decided adversely to the City, will not have a material adverse impact the operation of the Water System, or the timely collection of the Water System revenues pledged to the payment of the Series 2018 Bonds. *[To be Reviewed and Updated Prior to Posting.]*

CONTINUING DISCLOSURE

[To be Updated]

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information. The City, will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Water Utility (the “Annual Report”) by not later than the March 31 following the end of the City’s fiscal year, commencing March 31, 2019, with the report for the fiscal year ending June 30, 2018, and to provide notices of the occurrence of certain listed events (“Notice Events”). These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the “Rule”). The specific nature of the information to be contained in the Annual Report or the notices of listed events is set forth in APPENDIX F.

The City and related governmental entities – specifically those entities, like the Authority, for whom City staff is responsible for undertaking compliance with continuing disclosure undertakings – have previously entered into numerous disclosure undertakings under the Rule in connection with the issuance of long-term obligations. The City hired Digital Assurance Certification (“DAC”) to do a detailed review of all of the City’s postings on EMMA for the preceding five years. The audit was completed on or about June 30, 2018. In the preceding five years, the City failed to timely comply in certain respects with its previous undertakings with regard to the Rule to provide annual reports or notices of Notice Events. In addition, on several occasions during the last five years the City failed to provide its audited or unaudited financial statements in the time required by its continuing disclosure undertakings. Specifically, the audited financial statements for Fiscal Year 2012-13 and Fiscal Year 2011-12 were not filed timely. The City’s compliance with its previous undertakings in this respect was complicated by the bankruptcy proceedings, and while the City filed with EMMA detailed information as and when available with respect to the bankruptcy, the completion of its audited financial statements demanded more time into past years than expected and agreed in its previous undertakings.

The City has an ongoing contract with Willdan Financial Services as Dissemination Agent. The City believes it has established procedures in policies adopted by the City Council to ensure that the City will make all required continuing disclosure filings on a timely basis in the future.

FINANCIAL STATEMENTS

The financial statements for the City for the Fiscal Year ended June 30, 2017, included in Appendix B, have been audited by The Pun Group, LLP (the “Independent Auditor”), as stated in its report appearing in Appendix B and are included for background information only.

The audited financial statements include information concerning the City’s General Fund and other funds. The 2018 Bonds are limited obligations of the Authority payable solely from installment payments to be made by the City to the Authority, for which the City has pledged Available Revenues derived from the operation of the Water System and are reflected under “Proprietary Fund Financial Statements” of the audited financial statements as a major enterprise fund of the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS.” No other funds of the City other are available for payment of the 2018 Bonds.

The report of the Independent Auditor states that in the opinion of the Independent Auditor, the financial statements referred to therein present fairly, in all material respects, the financial position of the City, including the Water Fund as of June 30, 2017, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States of America.

RATINGS

S&P Global Services (“S&P”), Fitch, Inc., doing business as Fitch Ratings (“Fitch”) and Moody’s Investors Service, Inc. (“Moody’s”), have issued [insured] ratings on the 2018 Bonds of “___,” “___” and “___,” respectively[, assuming that the Policy is issued by the Bond Insurer. S&P, Fitch, and Moody’s have also issued underlying ratings on the 2018 Bonds of “___,” “___” and “___,” respectively.] ng of

A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the 2018 Bonds. An explanation of the significance of each rating may be obtained from the rating agencies at the following addresses: Moody’s Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor’s Ratings Group, a Division of McGraw-Hill Companies, 55 Water Street, New York, New York 10041 and Fitch Inc., One State Street Plaza, New York, New York 10004. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by either rating agency if, in its judgment, circumstances so warrant. The Authority undertakes no responsibility to oppose any such revision or withdrawal but the Authority will comply with notification requirements. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the 2018 Bonds.

UNDERWRITING

Citigroup Global Markets Inc. and RBC Capital Markets Inc. (the “Underwriters”) have agreed to purchase the 2018 Bonds at a purchase price equal to \$_____ which represents the par amount of the 2018 Bonds, less an Underwriters’ discount in the amount of \$_____, plus an original issue premium in the amount of \$_____. The bond purchase agreement relating to the 2018 Bonds provides that the Underwriters will purchase all of the 2018 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said bond purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

MUNICIPAL ADVISOR

The Authority has retained Del Rio Advisors, LLC of Modesto, California, as municipal advisor (the “Municipal Advisor”) in connection with the offering of the Bonds. All financial and other information presented in this Official Statement has been provided by the Authority and others from their records. Unless otherwise footnoted, the Municipal Advisor takes no responsibility for the accuracy or completeness of the data provided by the Authority or others and has not undertaken to make an independent verification or does not assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor has assisted the Authority with the structure, timing and terms for the sale of the Bonds. The Municipal Advisor provides municipal advisory services only and does not engage in the underwriting, marketing, or trading of municipal securities or other negotiable instruments. The fee of the Municipal Advisor is contingent upon the successful closing of the Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the 2018 Bonds, Grant Thornton, LLP, Minneapolis, Minnesota (the “Verification Agent”), will deliver a report stating that it has reviewed and confirmed the mathematical accuracy of certain computations relating to the adequacy of the funds and/or securities deposited in the 2018 Escrow Fund and the interest thereon, if any, to pay, when due, the redemption price and interest on the Refunded Bonds on the specified respective redemption dates thereof.

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MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Authority, the City and the Underwriters. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of such documents and reports are available for inspection at the office of the Chief Financial Officer, City of Stockton, 425 North El Dorado Street, Stockton California 95202.

The execution and delivery of the Official Statement has been duly authorized by the Board of Directors of the Authority and by the City Council.

STOCKTON PUBLIC FINANCING AUTHORITY

By: _____
Matt Paulin, Treasurer

CITY OF STOCKTON

By: _____
Matt Paulin, Chief Financial Officer

APPENDIX A

GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY OF STOCKTON

The following information concerning the City and surrounding areas is included only for the purpose of supplying general information regarding the community. The 2018 Bonds are not a debt of the City, the State or any of its political subdivisions and neither the City, the State, nor any of its political subdivisions is liable therefor. The 2018 Bonds are limited obligations of the Authority payable solely from 2018 Installment Payments made by the City. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS."

General

The City is a municipal corporation and charter city incorporated in 1850. The City is the county seat of the County and is located in California's San Joaquin Valley, approximately 78 miles east of the San Francisco Bay Area, approximately 345 miles north of Los Angeles and approximately 45 miles south of Sacramento. The County covers approximately 1,400 square miles. The County is bounded by Sacramento County on the north, Stanislaus County on the south, Contra Costa County and Alameda County on the west and Amador County, Calaveras County and Stanislaus County on the east. The land area of the City is 61.7 square miles.

Governing Body

The City operates under a Council/Manager form of government, with a seven-member City Council (current members were elected by district voting) for staggered four-year terms. Under this form of government, policy making and legislative authority is entrusted to the City Council. The Mayor is elected by City-wide election, and the representatives of the City Council are elected from six districts for staggered four-year terms, with a two-term limit. Newly elected representatives are sworn in on the first Tuesday of January of each odd-numbered year.

The City Manager is responsible for carrying out policies and ordinances of the City Council for appointing heads of departments and overseeing the operation of the City. The City Manager, the City Attorney, the City Auditor and the City Clerk are appointed by the City Council.

The Mayor, current members of the City Council and key administrative personnel of the City are listed in Table A-1 and Table A-2, respectively.

**TABLE A-1
CITY OF STOCKTON
Mayor and City Councilmembers**

Name	Office	Term Expires	Occupation
Michael Tubbs	Mayor	12/31/21	Educator
Elbert H. Holman, Jr.	Vice Mayor, District 1	12/31/19	Retired – law enforcement
Christina Fugazi	Councilmember, District 5	12/31/19	Educator
Dan Wright	Councilmember, District 2	12/31/19	Elementary School Principal
Susan Lofthus	Councilmember, District 3	12/31/18	Administrative Assistant
Susan Lenz	Councilmember, District 4	12/31/20	Business Owner
Jesús Andrade	Councilmember, District 6	12/31/20	Businessman

TABLE A-2
CITY OF STOCKTON
Key Administrative Personnel

Name	Position
Kurt O. Wilson	City Manager
John M. Luebberke	City Attorney
Matt Paulin	Chief Financial Officer
Kevin Beltz	Program Manager
Moss Adams LLP	City Auditor
Christian Clegg	Interim City Clerk

The City provides a full range of municipal services. As provided in the City Charter, these services include public safety (police, fire, paramedics, water rescue and building inspection), sanitation (solid waste disposal, wastewater and stormwater utilities), water utility, community development, library, parks and recreation and general administrative services.

Population

Population information is set forth in Table A-3.

TABLE A-3
CITY OF STOCKTON, COUNTY OF SAN JOAQUIN
AND STATE OF CALIFORNIA
Population
(As of January 1)

Year	City of Stockton	County of San Joaquin	State of California
2013	302,227	704,700	38,239,207
2014	304,994	711,850	38,567,459
2015	312,990	723,761	38,907,642
2016	316,464	735,677	39,189,035
2017	311,724	747,263	39,500,973
2018	315,103	758,744	39,809,693

Sources: California State Department of Finance, E-1 Population Estimates for Cities, Counties, and the State—January 1, 2013 and 2014 through January 1, 2017 and 2018, released May 1, 2018; California State Department of Finance.

Labor Force and Employment

Table A-4 compares estimates of the labor force, civilian employment, and unemployment for City residents, County residents, State residents, and United States residents between 2013 and 2017.

Table A-4
CITY OF STOCKTON, COUNTY OF SAN JOAQUIN
STATE OF CALIFORNIA AND UNITED STATES
Civilian Labor Force, Employment, and Unemployment
2013 through 2017

<u>Year and Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2017				
City	130,900	122,300	8,600	6.6%
County	324,400	305,600	18,800	5.8
State	19,312,000	18,393,100	918,900	4.8
United States	160,320,000	15,337,000	6,982,000	4.4
2016				
City	129,400	118,100	11,300	8.7
County	319,200	293,500	25,700	8.1
State	19,312,000	18,393,100	1,044,800	5.5
United States	159,187,000	151,436,000	148,976,000	4.9
2015				
City	127,900	115,700	12,200	9.6
County	315,200	287,300	27,900	8.9
State	18,893,200	17,723,300	1,169,900	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
2014				
City	127,500	113,000	14,500	11.3
County	312,600	279,700	32,900	10.5
State	18,755,000	17,348,600	1,406,400	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
2013				
City	128,100	111,100	17,000	13.2
County	313,100	274,600	38,500	12.3
State	18,624,300	16,958,700	1,665,600	8.9
United States	155,389,000	143,929,000	11,460,000	7.4

Sources: California State Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.

Employment and Industry

Approximately 3,000 acres in the City are zoned for light and heavy industry. Included in this acreage are 15 industrial parks with all on/site improvements. Six industrial parks are rail served.

The principal employers in the City as of Fiscal Year 2016-17 are set forth in Table A-5.

Table A-5
CITY OF STOCKTON
Principal Employers
Fiscal Year 2016-17
(As of August 2017)

Company	Product/Service	Employees	Percent of Total City Employers
St. Joseph's Medical Center	Health Care	4,600	1.48%
Stockton Unified School District	Public Education	3,894	1.25
City of Stockton	City Government	1,862	0.60
Dameron Hospital	Health Care	1,200	0.39
Kaiser Permanente	Health Care	1,065	0.34
San Joaquin Delta College	Education	967	0.31
University of the Public	Education	900	0.29
Lincoln Unified School District	Education	765	0.25
O'Reilly Auto Parts	Automotive	600	0.19
World Class Distribution, Inc.	Warehouse	500	<u>0.18</u>
TOTAL			5.27%

Source: City of Stockton Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017.

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The Industry Employment and Labor Force for the Stockton-Lodi Metropolitan Statistical Area (MSA) are set forth in Table A-6. The principal city within the Stockton-Lodi MSA is the City.

Table A-6
STOCKTON-LODI MSA
Industry Employment[†] and Labor Force
By Annual Average
March 2017 Benchmark

	2013	2014	2015	2016	2017
Total All Industries	221,200	226,700	234,800	242,600	250,900
Agriculture	16,100	15,700	16,700	16,600	16,600
Nonagriculture	205,100	211,000	218,200	226,000	234,300
Goods Producing	26,800	27,500	28,800	30,000	30,800
Manufacturing	17,900	18,500	18,600	18,800	19,200
Wholesale Trade	11,100	11,100	11,400	11,700	12,100
Retail Trade	25,600	25,700	26,000	26,500	26,800
Transportation, Warehousing, Utilities	17,200	18,300	20,400	23,600	26,700
Information	2,100	2,100	1,900	2,000	1,900
Financial Activities	7,600	7,500	7,400	7,500	7,800
Professional and Business Services	17,400	18,300	19,400	19,600	19,000
Education and Health Services	35,500	35,900	36,500	36,400	38,000
Leisure and Hospitality	18,200	19,100	19,700	20,500	21,400
Other Services	6,600	6,900	7,200	7,500	7,900
Government	37,100	38,600	39,600	40,800	42,000

[†] Industry employment is by place of work; excludes business owners, self-employed people, unpaid volunteers or family workers and private household workers.

Source: State of California Employment Development Department, Labor Market Information Division.

Personal Income

The United State Department of Commerce, Bureau of Economic Analysis (the “BEA”) produces economic accounts statistics that enable government and business decision-makers, researchers, and the public to follow and understand the performance of the national economy.

The BEA defines “personal income” as income received by persons from all sources, including income received from participation in production as well as from government and business transfer payments. Personal income represents the sum of compensation of employees (received), supplements to wages and salaries, proprietors’ income with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. Per capita personal income is calculated as the personal income divided by the resident population based upon the Census Bureau’s annual midyear population estimates.

Table A-7 summarizes the total personal income and per capita income for the Stockton-Lodi Metropolitan Statistical Area (an “MSA”), the State and the United States for the calendar years 2012 through 2016 (the most recent annual data available). The principal city within the Stockton MSA is the City.

Table A-7
STOCKTON-LODI MSA, STATE OF CALIFORNIA AND UNITED STATES
Personal Income

Year and Area	Personal Income (millions of dollars)	Per Capita Personal Income (dollars)
2016[†]		
Stockton MSA	\$29,684	\$40,458
State	2,212,691	56,374
United States	15,912,770	49,246
2015		
Stockton MSA	28,280	39,087
State	2,133,664	54,718
United States	15,547,661	48,451
2014		
Stockton MSA	26,272	36,836
State	1,986,026	51,344
United States	14,811,388	46,494
2013		
Stockton MSA	24,681	35,095
State	1,861,957	48,570
United States	14,068,960	44,493
2012		
Stockton MSA	23,811	33,986
State	1,838,567	48,369
United States	13,904,485	44,282

[†] The most recent annual data available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis. Per capita personal income was computed using Census Bureau Midyear population estimates. Estimates reflect County population estimates available as of March 2017.

Note: All dollars estimates are in current dollars no adjusted for inflation)

Last updated: November 16, 2017.

Construction Activity

Building activity for the past five calendar years for which data is available in the City is shown in Table A-8.

Table A-8
CITY OF STOCKTON
Total Building Permit Valuations[†]
(\$ in thousands)

Permit Valuation	2013	2014	2015	2016	2017
New Single Family	\$24,633	\$19,135	\$32,955	\$58,735	\$65,566
New Multiple Family	7,265	1,011	29,605	14,797	13,037
Residential Alterations/Additions	9,608	13,577	12,860	75,506	62,938
TOTAL RESIDENTIAL	41,507	33,724	75,421	149,038	141,541
TOTAL NONRESIDENTIAL	92,300	87,732	78,556	122,975	255,824
TOTAL	\$133,808	\$121,456	\$153,978	\$270,013	\$397,365
Net Dwelling Units	2013	2014	2015	2016	2017
Single Family	96	75	123	215	238
Multiple Family	70	4	257	25	115
TOTAL	166	79	380	240	353

(1) Certain columns may not total due to rounding.

(2) Most recent annual data available.

Sources: Construction Industry Research Board: "Building Permit Summary" for years 2013 through 2017.

Transportation

The City is located on Interstate 5, the West Coast's major route from Canada to Mexico. The City's cross-town freeway connects Interstate 5 with State Route 99, the State's other principal north-south freeway, and State Route 99, California's other principal north-south highway. The City also benefits from direct highway connections to the San Francisco Bay Area via Interstate 580, and to the Reno-Lake Tahoe area via Interstate 80. Thirty-five major transcontinental truck lines and nearly 200 contract carriers serve the City and provide overnight delivery to Los Angeles, San Francisco and Reno. The City is also served by Greyhound and the San Joaquin Regional Transit District.

The City is served by the rail services of Santa Fe, Southern Pacific, and Union Pacific systems in addition to three short line railroads: Central California Traction Company, Tidewater Southern, and Stockton Terminal and Eastern Railroad. Passenger service is provided by Amtrak.

The Stockton Metropolitan Airport, located on 1,449 acres on the southern boundary of the City, is a general aviation facility offering both passenger and freight transport services. It has six air carrier gates adjoining a 44,355 square foot terminal building.

The Port of Stockton is the largest inland deep water port in the State. It is located on the Stockton deepwater ship channel and encompasses a 2,000 acre operating area. The Port has berthing space for 17 vessels, 1.1 million square feet of dockside transit sheds and shipside rail trackage, and 7.7 million square feet of warehousing, and is 75 nautical miles east of the Golden Gate Bridge.

Railroad service is provided to the City by Burlington Northern, Santa Fe and the Union Pacific railroads. Daily passenger service by Amtrak is available to San Francisco, Los Angeles and Sacramento.

Education and Recreation

Education. Within the City, there are five post-secondary institutions: San Joaquin Delta Community College, California State University Stanislaus-Stockton (extension), University of the Pacific, Humphrey's College and School of Law and National University (private).

The majority of students living within City limits attend schools operated by one of four unified school districts providing kindergarten through grade 12 education: the Stockton Unified School District, the Lodi Unified School District, the Lincoln Unified School District and the Manteca Unified School District.

The Escalon Unified School District, the Holt Union Elementary School District, the Linden Unified School District, the Tracy Unified School District and the County Office of Education also operate schools located within the City.

There are also more than 20 private schools located within the City offering elementary and secondary education.

There is also one central, five branch libraries and two mobile library units holding more than one million books in the collection.

Recreation. The City is situated along the San Joaquin Delta waterway which connects to the San Francisco Bay and the Sacramento and San Joaquin Rivers and is also located in close proximity to Lake Tahoe and Yosemite National Park. There are approximately 619 acres of parkland located within the City.

The Stockton Children's Museum is located in downtown Stockton and offers educational experiences based upon hands-on, play-based exhibits that enhance a child's understanding of how the world works. The Museum features more than a dozen different child-sized environments that recreate the ambience of a small city where merchants, bankers and doctors might mingle among the grocery shoppers, fast food customers and canning crew.

The 5,000 seat Stockton Ballpark that opened in April 2005 is the home of the Stockton Ports single A minor league team for the Oakland Athletics features four luxury suites, lawn seating, a family recreation area and a barbeque area with umbrella seating behind the outfield.

The City Centre Cinema Complex in downtown Stockton offers a 16-screen movie theater, restaurants and retail shopping.

The 220,000 square foot, 10,000 seat Stockton Arena is home of the Stockton Thunder Minor League Hockey Team.

The 2,042-seat Bob Hope Theater is located in the historic former Fox Theater that was constructed in 1930. This performing arts center hosts national and local theatrical, musical, comedy and dance productions.

The Gary & Janice Podesto IMPACT Teen Center, located in downtown Stockton, features four bowling lanes, a half-court basketball area, stage, meeting rooms, game rooms, classrooms, a computer lab, snack bar, and a climbing wall.

The City also operates a Skate Park and Ice Arena and offers various other sports and recreational opportunities through the City Park and Recreation Department.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY OF STOCKTON
FOR THE YEAR ENDED JUNE 30, 2017**

The audited financial statements include information concerning the City's General Fund and other funds and are included for background information only.

The 2018 Bonds are limited obligations of the Authority payable solely from installment payments to be made by the City to the Authority, for which the City has pledged Available Revenues derived from the operation of the Water System and are reflected under "Proprietary Fund Financial Statements" of the audited financial statements as a major enterprise fund of the City. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 BONDS" in the forepart of this Official Statement. No other funds of the City are available for payment of the 2018 Bonds.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

APPENDIX D

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Stockton (the “City”) in connection with the issuance of \$____,000 Stockton Public Financing Authority Water Revenue Refunding Bonds, Series 2018A (Green Bonds) (the “Bonds”). The Bonds are being issued pursuant to an Indenture dated as of November 1, 2018 (the “Indenture”), by and between the Stockton Public Financing Authority (the “Authority”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Section 3 and Section 4 of this Disclosure Certificate.

“*Beneficial Owner*” means any person which (a) 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).

“*Disclosure Representative*” means the Chief Financial Officer of the City or a designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” means initially Willdan Financial Services, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City written evidence of such designation.

“*EMMA*” means the Electronic Municipal Marketplace Access site maintained by the MSRB, currently located at <http://emma.msrb.org>.

“*Filing Date*” means March 31 following the end of each Fiscal Year of the City (or the next succeeding business day if such day is not a business day), commencing with the filing for Fiscal Year 2017-18 due March 31, 2019.

“*Fiscal Year*” means with respect to the City, the period beginning on July 1 of each year and ending on the next succeeding June 30, or any 12-month or 52-week period thereafter selected by the City with notice of such selection of change in fiscal year to be provided as set forth in Section 3(a).

“*Holders*” means either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the

Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“Official Statement” means the Official Statement dated _____, 2018 relating to the Bonds.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Significant Event” means any of the events listed in Section 5(a) or Section 5(b) of this Disclosure Certificate and any other event legally required to be reported pursuant to the Rule.

SECTION 3. Provision of Annual Reports.

(a) The City shall provide, or shall cause the Dissemination Agent to provide to the MSRB, not later than the Filing Date, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Fiscal Year of the City changes, it shall give notice of such change in the same manner as for a Significant Event under this Disclosure Certificate. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) Not later than 15 Business Days prior to the Filing Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The City shall provide, or cause the preparer of the Annual Report to provide, a written certificate with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished to it hereunder. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Report.

(c) If the City is unable to provide to the Annual Report to the MSRB by the date required in Section 3(a), the City shall send a notice in a timely manner to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) Provided it has received the Annual Report from the City pursuant to Section 3(a), file the Annual Report the MSRB by the Filing Date, and file any notice of a Significant Event, if requested by the City, as soon as practicable following receipt from the City of such notice; and

(ii) Provided it has received the Annual Report from the City pursuant to Section 3(a), file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The Statement of Net Assets, the Statement of Revenues, Expenditures and Changes in Fund Net Assets and the Statement of Cash Flows for the Water System 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 such financial reports are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements relating to the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not presented in the audited financial statements:

(i) A maturity schedule for the outstanding Bonds;

(ii) The balance in each of the following funds established pursuant to the Indenture as of the close of the prior Fiscal Year:

(A) total deposits in the Revenue Fund for the prior Fiscal Year (with a statement of debt service requirement discharged by the Revenue Fund in the prior Fiscal Year);

(B) the Reserve Fund (with a statement of the current Reserve Requirement and the name of the guaranteed investment contract provider, if any).

(iii) Information for the prior Fiscal Year substantially similar to that provided in the following tables of the Official Statement;

(A) Table 5A – “Customer Class by Type of Account and Number of Connections;”

(B) Table 5B – “Water Sold by Customer Class;”

(C) Table 6 – “Ten Largest Accounts by Annual Consumption;”

(D) Table 7 – “Ten Largest Accounts by Revenue;”

(E) Table 9 – “Schedule of Rates and Charges and Effective Dates;”

(F) Table 10 – “Historical Connection Fee Revenues;” and

(G) Table 11 – “Uncollectible Charges for Services.”

(iv) [the adopted budget for the Water System – *To be Discussed*]; and

(v) Debt service schedules for any Parity Debt.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Disclosure Certificate, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than 10 business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies;
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) Substitution of credit or liquidity providers, or their failure to perform;
- (v) Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender offers;
- (vii) Defeasances;
- (viii) Rating changes; or
- (ix) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.

Note: This event is considered to occur upon the happening of any of the following: the appointment of a receiver, trustee 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 to the MSRB of the occurrence of any of the following events described in this Section 5(b) with respect to the Bonds, if material, not later than 10 business days after the occurrence of the event:

- (i) Unless described in Section 5(a)(v), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (ii) Modifications to rights of the Bond holders;
- (iii) Bond calls;
- (iv) Release, substitution, or sale of property securing repayment of the Bonds;
- (v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(vii) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The City acknowledges that it is required to make a determination whether a Significant Event in Section 5(b) is material under applicable federal securities laws in order to determine if a filing with the MSRB is required. If the City determines that the occurrence of an event listed in Section 5(b) would be material under applicable federal securities laws, or if the City changes its Fiscal Year, the City shall file, or shall cause the Dissemination Agent to file, within 10 business days of occurrence, a notice of such event on EMMA.

(d) Notwithstanding the foregoing, notice of Significant Events described in Section 5(a)(vii) and Section 5(b)(iii) need not be given any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Identifying Information for Filings with EMMA. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The obligations of the City under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Significant Event under Section 5(c).

SECTION 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time upon delivery of written notice thereof to the City at least 30 days prior to the effective date of such resignation. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied with respect to such amendment or waiver:

(a) If the amendment or waiver relates to the provisions of Section 3(a), Section 4, or Section 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 a change in the nature, identity or status of an obligated person with respect to the Bonds or the type of business conducted by such person;

(b) The undertaking in this Disclosure Certificate, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the

requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either: (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to such Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

(e) In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Significant Event, and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(f) Notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for the occurrence of a Significant Event under Section 5(c).

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Significant Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Significant Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

SECTION 11. Default. This Disclosure Certificate shall be solely for the benefit of the holders and beneficial owners from time to time of the Bonds. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Trustee may (and, at the request of the Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by order of a court of competent jurisdiction in the County of San Joaquin, California, to cause the City to comply with its obligations under this Disclosure Certificate, *provided* that any holder or beneficial owner seeking to require the City to comply with this Disclosure Certificate shall first provide at least thirty (30) days prior written notice to the City of the failure of the City, giving reasonable detail of such failure. Failure by the City to comply with any provision of this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with the terms of this Disclosure Certificate shall be an action to compel performance. No person or entity shall be entitled to recover monetary damages under this Disclosure Certificate.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the negligence or willful misconduct of the Dissemination Agent. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Notices. Any notice or other communication to be given by the City or the Dissemination Agent under this Disclosure Certificate may be given by delivering the same by first class mail, postage prepaid, messenger, or overnight delivery to the addresses set forth below (until another address is filed by the City or the Dissemination Agent with the Trustee):

To the City:	City of Stockton 425 North El Dorado Street Stockton, California 95202 Attention: Chief Financial Officer
If to the Trustee:	Wells Fargo Bank, N.A. Corporate Trust Services 333 Market Street, 18th Floor San Francisco, California 94105
If to the Dissemination Agent:	Willdan Financial Services 27368 Via Industria, Suite 200 Temecula, California 92590

SECTION 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Record Keeping. The City shall maintain records of Annual Reports and notices of Significant Events, including the content of such disclosure, the name of the entities with which such disclosure was filed and the date of filing of such disclosure.

SECTION 16. Governing Law. The laws of the State of California shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in any courts of the State located in the County of San Joaquin, California.

SECTION 17. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: _____, 2018

CITY OF STOCKTON

By: _____
Chief Financial Officer

The undersigned hereby agrees to act as
Dissemination Agent pursuant to the terms
and conditions of this Continuing Disclosure Certificate

WILLDAN FINANCIAL SERVICES

By: _____
Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Stockton Public Financing Authority

Name of Bond Issue: Stockton Public Financing Authority Water Revenue Refunding Bonds, Series 2018A (Green Bonds)

Date of Issuance: _____, 2018

NOTICE IS HEREBY GIVEN that the City of Stockton (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate dated _____, 2018 executed by the City. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF STOCKTON

By: _____
[Chief Financial Officer]

cc: Willdan Financial Services
27368 Via Industria, Suite 200
Temecula, California 92590

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, redemption premium, if any, and interest with respect to the Bonds to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the Authority and the City of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The Authority, the City, the Trustee, and the Underwriters understand that the current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and that the current “Procedures” of DTC to be followed in dealing with Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC, if less than all of the Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 issuer 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority, the City, or the Trustee, on 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, the Authority, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the Bonds to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority, the City, or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the Authority, the City, or the Trustee take any responsibility for the accuracy thereof.

NONE OF THE AUTHORITY, THE CITY, OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

None of the Authority, the City, or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply.

The Authority, the City, and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the Authority, the City, or the Trustee is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

APPENDIX F
ORIGINAL OPINION OF BOND COUNSEL

APPENDIX G
SPECIMEN MUNICIPAL BOND INSURANCE POLICY