

**CITY OF UKIAH
CITY COUNCIL AGENDA
Special Meeting
CIVIC CENTER COUNCIL CHAMBERS
300 Seminary Avenue
Ukiah, CA 95482**

**February 8, 2016
4:00 p.m.**

- 1. ROLL CALL**
- 2. CLOSED SESSION**
- 3. UNFINISHED BUSINESS**
 - a. Adoption of Resolution and Related Documents for the Issuance of Water Revenue Refunding Bonds, Series 2016
- 4. PUBLIC COMMENT**
- 5. ADJOURNMENT**

Please be advised that the City needs to be notified 24 hours in advance of a meeting if any specific accommodations or interpreter services are needed in order for you to attend. The City complies with ADA requirements and will attempt to reasonably accommodate individuals with disabilities upon request. Materials related to an item on this Agenda submitted to the City Council after distribution of the agenda packet are available for public inspection at the front counter at the Ukiah Civic Center, 300 Seminary Avenue, Ukiah, CA 95482, during normal business hours, Monday through Friday, 8:00 am to 5:00 pm.

I hereby certify under penalty of perjury under the laws of the State of California that the foregoing agenda was posted on the bulletin board at the main entrance of the City of Ukiah City Hall, located at 300 Seminary Avenue, Ukiah, California, not less than 24 hours prior to the meeting set forth on this agenda.

Dated this 5th day of February, 2016.
Kristine Lawler, City Clerk



ITEM NO.: 3a

MEETING DATE: February 8, 2016

AGENDA SUMMARY REPORT

SUBJECT: ADOPTION OF RESOLUTION AND RELATED DOCUMENTS FOR THE ISSUANCE OF WATER REVENUE REFUNDING BONDS, SERIES 2016

Summary: Council to authorize the sale of Water Revenue Refunding Bonds, Series 2016, and approve the resolution (Attachment #1) and other documents in relation to the issuance of the said bonds.

Background: On December 16, 2015 Council authorized approval of a contract for Bond and Disclosure Counsel and underwriter Services to refund the 2005 Water Bonds. On January 20, 2016 Council authorized staff to send a notice of redemption to the current bond holders.

The Association of Bay Area Governments (ABAG) issued the 2005 Water and Wastewater Revenue Bonds, Series A on behalf of the City to finance the acquisition and construction of capital improvements to water systems of the City in the principal amount of \$17.9 million of which \$11.85 million is presently outstanding. Given the low interest rate environment the City Staff has been working with PFM, the City's financial advisor, to identify refunding opportunities. Based on an analysis, the City's 2005 Water Bonds were identified as a good refunding candidate with the potential to achieve meaningful present value savings if refunded. Accordingly, a financing team was established to execute the issuance of the Water Revenue Refunding Bonds, Series 2016 to refund the 2005 Water Bonds. This refund will save the water system approximately \$1.5 million.

Discussion: Staff has been working with Bob Gamble at PFM to analyze the refinancing of the City's 2005 Water Bond. Based upon the volatility in the financial markets, City Staff believes it is prudent to proceed with the refinancing in order to avoid the risk, to the extent possible, of interest rates rising in the coming months. Hence an expedited financing schedule was adopted to issue the Water Revenue

Continued on Page 2

Recommended Action(s): Staff recommends that Council adopt the resolution authorizing the issuance of Water Revenue Refunding Bonds, Series 2016, and approving certain documents and authorizing certain actions in connection therewith.

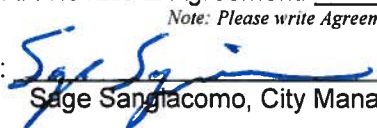
Alternative Council Option(s): N/A

Citizens advised: N/A
Requested by: N/A
Prepared by: Karen Scalabrini, Finance Director.
Coordinated with: Sean White, Water and Sewer Director.
Presenter: Sean White, Water and Sewer Director.
Attachments:
1. Resolution
2. Bond Indenture – Exhibit A
3. Bond Purchase Agreement – Exhibit B
4. Escrow Agreement – Exhibit C
5. Official Statement – Exhibit D
6. Continuing Disclosure Certificates – Exhibit E
7. Financing Schedule

COUNCIL ACTION DATE: _____: ☐ Approved ☐ Continued to _____ ☐ Other _____

RECORDS APPROVED: ☐ Agreement: _____ ☐ Resolution: _____ ☐ Ordinance: _____

Note: Please write Agreement No. in upper right corner of agreement when drafted..

Approved: 
Sage Sangiacomo, City Manager

Refunding Bonds, Series 2016, with the final delivery of bonds expected to occur by the end of February. The par amount for the bonds is expected not to exceed \$20 million and the bonds will be secured by the net revenue of the water system. All the other related legal covenants have been elaborated in the bond indenture and official statement among other documents.

A refinancing transaction, such as this, requires the involvement of several parties and the development of many legal documents to support the transaction. To that end, City Staff with the assistance of PFM has assembled a financing team, which includes Stradling Yocca Carlson & Rauth, P.C. (Bond and Disclosure Counsel), Raymond James & Associates, Inc. (Underwriter), and Wells Fargo Bank (Trustee and Escrow Agent) to execute the refunding transaction. The issuance of bonds and the execution of the transaction require the City to enter into various agreements as well as develop financing and investor material listed below:

- Bond Indenture (Attachment #2)
- Bond Purchase Agreement (Attachment #3)
- Escrow Agreement (Attachment #4)
- Official Statement (Attachment #5)
- Continuing Disclosure Certificates (Attachment #6)

All such documents developed in relation to this refunding are provided as an attachment for the Council's review. A brief description of the documents is as follows:

Bond Indenture: describes the bonds and the source of repayment for the bonds (net revenues of the water system), specifies how the bond proceeds may be used, and establishes the City's agreement with Wells Fargo Bank, National Association, as trustee, to cause the bonds to be repaid. The Indenture also contains important covenants, including a covenant to set water system rates and charges at levels that are expected to be sufficient each fiscal year to repay the bonds, and conditions on the issuance of additional obligations payable from net revenues of the water system.

Bond Purchase Agreement: is entered into with the bond underwriter, Raymond James & Associates. The Bond Purchase Agreement establishes the terms of the bond sale, contains standard closing conditions, and sets forth the documents that are required to be executed in connection with the issuance of the bonds.

Escrow Agreement: is entered into with Wells Fargo Bank, National Association, as escrow agent. The Escrow Agreement provides instructions to the escrow agent with respect to the refunding of City's obligations that secure the 2005 ABAG Bonds.

Official Statement: is distributed to investors and provides material information about the bonds, the City's water system, and the legal documents that are necessary for investors to make an informed decision about whether or not to buy the bonds. The underwriter uses the Official Statement as a marketing document, and the Official Statement is subject to federal securities laws. Although members of the financing team, including bond counsel, the City's financial advisor and the underwriter, can assist in the preparation of the Official Statement, the Official Statement is ultimately a document for which the City is responsible. At closing, the City will certify that the Official Statement does not contain any material misstatements of fact or omit any statements the omission of which would make the information that is presented misleading.

Continuing Disclosure Certificates: set forth the City's obligation to update certain information in the Official Statement (primarily related to the water system) annually so that the bonds may be traded by investors in the future with the benefit of current information.

In addition to the 2005 Water Bonds, the City also intends to prepay its water loan owed to the State of California Department of Water Resources. The City's current obligation under the loan is \$1,065,356 and a part of the proceeds from the sale of the Series 2016 bonds will be used to refund the water loan outstanding with the State Department.

Public issuance of bonds requires they be rated by an independent rating agency. The City has engaged Standard and Poor's Rating Services to rate the current issuance. As part of the rating process, a rating presentation was made to the rating agency on February 2, 2016, highlighting the various credit strengths of the City's water system. The rating outcome will be reported to Council when it becomes available.

Impact on City Resources: Through this refinancing, the City's water enterprise is anticipated to save approximately \$100,000 annually through 2035, from lower interest rates. This represents present value savings of approximately \$1.5 million. In addition, the prepayment of the State loan results in additional present value savings of about \$45,000. The savings will improve the City's water bond coverage ratio and improve the annual cash flow for additional capital projects. As all costs related to a refinancing are contingent upon a successful closing, with the exception of a credit rating review by Standard & Poor's, no financial risk will accrue should refinancing meeting the City's requirements not occur.

Assuming City Council approval, the bond issuance will be finalized and the underwriter will begin to market the bonds to investors well in advance of pricing. At this point, the bonds are expected to price the week of February 15th, 2016, with delivery of bonds expected to occur the week of February 29th, 2016. A detailed financing schedule is attached with the report (Attachment #7). The 2005 Bonds are only callable on interest payment dates (March 1st and September 1st of any year) and the financing schedule, along with pricing and closing dates, was put together to incorporate that requirement. A notice of redemption, which must be sent at least thirty days prior to refunding, has been sent to the 2005 Bonds' bondholders notifying them of intent to redeem.

FISCAL IMPACT:				
Budgeted Amount in 15-16 FY	New Appropriation General Fund	Account Number	Budget Amendment Required	Previous Contract or Purchase Order No.
N/A	N/A	N/A	Yes ☐ No ☒	N/A

RESOLUTION NO. 2016-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF UKIAH AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$20,000,000 PRINCIPAL AMOUNT OF WATER REVENUE REFUNDING BONDS, SERIES 2016, AND APPROVING CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH

WHEREAS, the City Council (the "City Council") of the City of Ukiah (the "City") has determined to refinance the acquisition and construction of certain water system capital improvements (collectively, the "2005 Project"), more particularly described in the 2005 Installment Sale Agreement (as such term is defined below); and

WHEREAS, the Association of Bay Area Governments (the "Prior Issuer") has previously entered into an Installment Sale Agreement with the City dated as of September 1, 2005 (the "2005 Installment Sale Agreement") and issued its Association of Bay Area Governments 2005 Water and Wastewater Revenue Bonds, Series A (the "2005 Bonds"), to finance the acquisition and construction of certain water system capital improvements, including the 2005 Project; and

WHEREAS, a portion of the 2005 Bonds are secured by payments made by the City under the 2005 Installment Sale Agreement; and

WHEREAS, the City Council has determined to prepay its obligations under Loan Contract No. E54304, dated September 30, 1988 (the "State Loan"), by and between the City and the State of California Department of Water Resources ("DWR"); and

WHEREAS, in order to accomplish the refinancing of the 2005 Project and the prepayment of the State Loan, the City desires to issue its Water Revenue Refunding Bonds, Series 2016 (the "2016 Bonds") pursuant to that certain Indenture of Trust (the "Indenture"), by and between the City and Wells Fargo Bank, National Association, as trustee (the "Trustee"), substantially in the form presented to this City Council at the meeting at which this Resolution has been adopted; and

WHEREAS, the City's obligation to pay the 2016 Bonds will be payable from Net Revenues of the Water System (as such terms are defined in the Indenture); and

WHEREAS, the City will cause the 2005 Project to be refinanced through the prepayment of the 2005 Installment Sale Agreement from the proceeds of the 2016 Bonds and pursuant to the terms of an Escrow Agreement (2005 Installment Sale Agreement) with Wells Fargo Bank, National Association (the "Escrow Agreement"), substantially in the form presented to this City Council at the meeting at which this Resolution has been adopted; and

WHEREAS, the City will prepay the State Loan from the proceeds of the 2016 Bonds;

WHEREAS, the City Council desires to approve the form of a Bond Purchase Agreement (the "Purchase Contract"), by and between the City and Raymond James & Associates, Inc. (the "Underwriter"), pursuant to which the Underwriter will agree to purchase the 2016 Bonds on the terms and conditions set forth therein, substantially in the form presented to this City Council at the meeting at which this Resolution has been adopted; and

WHEREAS, the City Council desires to approve the form of Preliminary Official Statement in order to enable the Underwriter to market the 2016 Bonds, substantially in the form presented to this City Council at the meeting at which this Resolution has been adopted; and

WHEREAS, the City Council desires to approve the form of a Continuing Disclosure Certificate of the City, substantially in the form presented to this City Council at the meeting at which this Resolution has been adopted; and

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Ukiah as follows:

Section 1. The Indenture, in substantially the form attached hereto as Exhibit A and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The Mayor, the Vice-Mayor, the City Manager, the Finance Director, the City Clerk, or the designee of any of them (each, an "Authorized Officer"), are each hereby authorized and directed to execute and deliver the Indenture with such changes, insertions and omissions as may be recommended by the City Attorney or Stradling Yocca Carlson & Rauth, a Professional Corporation, bond counsel to the City ("Bond Counsel"), and approved by the officers executing the same, said execution being conclusive evidence of such approval.

Section 2. The City Council hereby authorizes the issuance, sale and delivery of the 2016 Bonds in an aggregate principal amount not to exceed \$20,000,000 (except that such amount may be increased with the approval of the City Manager or the Finance Director to provide for original issue discount to the extent that such original issue discount will result in a lower interest rate or yield to maturity with respect to the 2016 Bonds) in accordance with the terms and provisions of the Indenture. The proceeds of the 2016 Bonds will be expended: (i) to refinance the 2005 Project; (ii) to prepay the State Loan; (iii) to fund a reserve fund, if required; and (iv) to pay the costs of issuance of the 2016 Bonds.

Section 3. The Purchase Contract, in substantially the form attached hereto as Exhibit B and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The Authorized Officers are each hereby authorized and directed to execute and deliver the Purchase Contract with such changes, insertions and omissions as may be recommended by the City Attorney or Bond Counsel and approved by the person executing the same, said execution being conclusive evidence of such approval; provided, however, that in no event shall the aggregate principal amount of the 2016 Bonds exceed \$20,000,000 (except that such amount may be increased with the approval of the City Manager or the Finance Director to provide for original issue discount to the extent that such original issue discount will result in a lower interest rate or yield to maturity with respect to the 2016 Bonds), nor shall the underwriting discount for the 2016 Bonds exceed 0.40% of the aggregate principal amount of the 2016 Bonds, nor shall the all-in true interest cost of the 2016 Bonds exceed 4.00%.

Section 4. The Escrow Agreement, in substantially the form attached hereto as Exhibit C and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The Authorized Officers are each hereby authorized and directed to execute and deliver the Escrow Agreement with such changes, insertions and omissions as may be recommended by the City Attorney or Bond Counsel and approved by the officers executing the same, said execution being conclusive evidence of such approval.

Section 5. Wells Fargo Bank, National Association, is hereby appointed as Trustee on behalf of the owners of the 2016 Bonds, with the duties and powers of such Trustee as set forth in the Indenture, and Wells Fargo Bank, National Association is hereby appointed as Escrow Agent under the Escrow Agreement.

Section 6. The City Manager, the Finance Director or the designee of either of them are authorized to reject any terms presented by the Underwriter if determined not to be in the best interest of the City, and the City Manager, the Finance Director, or the designee of either of them, are further authorized to evaluate whether the purchase of municipal bond insurance or a debt service reserve policy for the 2016 Bonds will result in a net savings to the City and, if so, to arrange for the purchase of such municipal bond insurance or debt service reserve policy.

Section 7. The preparation and distribution of the Preliminary Official Statement, in substantially the form attached hereto as Exhibit D, is hereby approved. The Authorized Officers are each hereby authorized to make such changes, insertions and omissions to the Preliminary Official Statement as may be recommended by the City Attorney or Bond Counsel and to sign a certificate deeming the Preliminary Official Statement final for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934. Upon execution of such certificate, the Underwriter is hereby authorized to distribute copies of said Preliminary Official Statement to persons who may be interested in the initial purchase of the 2016 Bonds. The Authorized Officers are each hereby authorized and directed to execute, approve and deliver the final Official Statement in the form of the Preliminary Official Statement, which, upon execution as authorized below, is made a part hereof as though set forth in full herein, with such changes, insertions and omissions as may be recommended by the City Attorney or Bond Counsel and approved by the officer executing the same, said execution being conclusive evidence of such approval. The Underwriter is directed to deliver copies of any final Official Statement to all actual initial purchasers of the 2016 Bonds.

Section 8. The Continuing Disclosure Certificate of the City, in substantially the form attached hereto as Exhibit E and, upon execution as authorized below, made a part hereof as though set forth in full herein, be and the same is hereby approved. The Authorized Officers are each hereby authorized and directed to execute and deliver the Continuing Disclosure Certificate with such changes, insertions and omissions as may be recommended by the City Attorney or Bond Counsel and approved by the person executing the same, said execution being conclusive evidence of such approval.

Section 9. The Authorized Officers and all other officers of the City are hereby authorized, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary and advisable in order to consummate the sale and delivery of the 2016 Bonds and otherwise effectuate the purposes of this Resolution, including, but not limited to, working with the Prior Issuer and the trustee for the 2005 Bonds to cause the redemption of that portion of the 2005 Bonds that is secured by the City's payments under the 2005 Installment Sale Agreement and working with DWR to effect the prepayment of the State Loan, and any such actions previously taken by such officers are hereby ratified and confirmed. Each of the Authorized Officers is hereby authorized to solicit bids from municipal bond insurers, to select an insurer to provide municipal bond insurance with respect to the 2016 Bonds and a debt service reserve policy, if applicable, and to execute and negotiate any agreements necessary in connection with the procurement of such municipal bond insurance or debt service reserve policy, provided that such municipal bond insurance or debt service reserve policy provides debt service savings or other benefits to the proposed transaction, as determined by the City. The City's execution of an insurance commitment shall be conclusive

evidence of such determination. Each of the above-referenced officers is hereby authorized to direct Bond Counsel and/or the City Attorney to make any necessary revisions to the legal documents to effectuate the procurement of municipal bond insurance and/or a debt service reserve fund policy. In the event that the Mayor is unavailable or unable to execute and deliver any of the above-referenced documents, any other member of the City Council may validly execute and deliver such document, and, in the event that the City Clerk is unavailable or unable to execute and deliver any of the above-referenced documents, any deputy clerk may validly execute and deliver such document. Expenditures of net proceeds of the 2016 Bonds to refinance the 2005 Project and prepay the State Loan shall be subject to compliance by the City with all legal and other conditions precedent thereto.

Section 10. This Resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this 8th day of February 2016, by the following roll call vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Stephen G. Scalmanini, Mayor

ATTEST:

Kristine Lawler, City Clerk

INDENTURE OF TRUST

Dated as of March 1, 2016

by and between

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee**

and the

CITY OF UKIAH

Relating to

**\$ _____
CITY OF UKIAH
WATER REVENUE REFUNDING BONDS, SERIES 2016**

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01.	Definitions	2
Section 1.02.	Content of Certificates and Opinions.....	13
Section 1.03.	Interpretation.....	13

ARTICLE II

THE 2016 BONDS

Section 2.01.	Authorization of 2016 Bonds.....	14
Section 2.02.	Terms of the 2016 Bonds.....	14
Section 2.03.	Transfer of 2016 Bonds	14
Section 2.04.	Exchange of 2016 Bonds	15
Section 2.05.	Registration Books.....	15
Section 2.06.	Form and Execution of 2016 Bonds	15
Section 2.07.	2016 Bonds Mutilated, Lost, Destroyed or Stolen.....	16
Section 2.08.	Book Entry System	16

ARTICLE III

ISSUANCE OF 2016 BONDS; APPLICATION OF PROCEEDS

Section 3.01.	Issuance of the 2016 Bonds	19
Section 3.02.	Application of Proceeds of the 2016 Bonds	19
Section 3.03.	Establishment and Application of Costs of Issuance Fund.....	19
Section 3.04.	Validity of 2016 Bonds.....	19
Section 3.05.	Establishment and Application of Bond Proceeds Fund	19

ARTICLE IV

REDEMPTION OF 2016 BONDS

Section 4.01.	Terms of Redemption	20
Section 4.02.	Selection of 2016 Bonds for Redemption.....	21
Section 4.03.	Notice of Redemption.....	21
Section 4.04.	Partial Redemption of 2016 Bonds.....	21
Section 4.05.	Effect of Redemption.....	22

ARTICLE V

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Section 5.01.	Pledge and Assignment; Revenue Fund	22
Section 5.02.	Allocation of Revenues.....	23
Section 5.03.	Reserve Fund	24

TABLE OF CONTENTS

(continued)

	<u>Page</u>
Section 5.04.	Application of Interest Account..... 26
Section 5.05.	Application of Principal Account 26
Section 5.06.	Application of Redemption Fund 26
Section 5.07.	Investments 26
Section 5.08.	Rebate Fund 27
Section 5.09.	Rate Stabilization Fund..... 28
Section 5.10.	Application of Funds and Accounts When No 2016 Bonds are Outstanding..... 29

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01.	Punctual Payment 29
Section 6.02.	Extension of Payment of 2016 Bonds 29
Section 6.03.	Against Encumbrances 29
Section 6.04.	Power to Issue 2016 Bonds and Make Pledge and Assignment 29
Section 6.05.	Accounting Records and Financial Statements 30
Section 6.06.	Tax Covenants 30
Section 6.07.	Waiver of Laws..... 31
Section 6.08.	Further Assurances 31
Section 6.09.	Budgets 31
Section 6.10.	Observance of Laws and Regulations..... 31
Section 6.11.	Compliance with Contracts..... 31
Section 6.12.	Prosecution and Defense of Suits 32
Section 6.13.	Continuing Disclosure 32
Section 6.14.	Additional Contracts and Bonds..... 32
Section 6.15.	Against Sale or Other Disposition of Property 33
Section 6.16.	Against Competitive Facilities 33
Section 6.17.	Maintenance and Operation of the Water System 34
Section 6.18.	Payment of Claims..... 34
Section 6.19.	Insurance..... 34
Section 6.20.	Payment of Taxes and Compliance with Governmental Regulations 35
Section 6.21.	Amount of Rates and Charges 35
Section 6.22.	Collection of Rates and Charges..... 35
Section 6.23.	Eminent Domain Proceeds 36
Section 6.24.	Enforcement of Contracts 36

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF 2016 BOND OWNERS

Section 7.01.	Events of Default 36
Section 7.02.	Remedies Upon Event of Default 37
Section 7.03.	Application of Revenues and Other Funds After Default..... 38
Section 7.04.	Trustee to Represent 2016 Bond Owners 39
Section 7.05.	2016 Bond Owners' Direction of Proceedings 39
Section 7.06.	Suit by Owners 39
Section 7.07.	Absolute Obligation of the City..... 40

TABLE OF CONTENTS

(continued)

	<u>Page</u>
Section 7.08. Remedies Not Exclusive	40
Section 7.09. No Waiver of Default	40
Section 7.10. [BOND INSURER PROVISIONS TO COME]	40

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee	40
Section 8.02. Merger or Consolidation	42
Section 8.03. Liability of Trustee	42
Section 8.04. Right to Rely on Documents	44
Section 8.05. Preservation and Inspection of Documents	45
Section 8.06. Compensation and Indemnification	45

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

Section 9.01. Amendments Permitted	45
Section 9.02. Effect of Supplemental Indenture	46
Section 9.03. Endorsement of 2016 Bonds; Preparation of New 2016 Bonds	47
Section 9.04. Amendment of Particular 2016 Bonds	47

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture	47
Section 10.02. Discharge of Liability on 2016 Bonds	48
Section 10.03. Deposit of Money or Securities with Trustee	48
Section 10.04. Payment of 2016 Bonds After Discharge of Indenture	49

ARTICLE XI

MISCELLANEOUS

Section 11.01. Liability of City Limited to Revenues	49
Section 11.02. Successor Is Deemed Included in All References to Predecessor	49
Section 11.03. Limitation of Rights to Parties and 2016 Bond Owners	49
Section 11.04. Waiver of Notice; Requirement of Mailed Notice	50
Section 11.05. Destruction of 2016 Bonds	50
Section 11.06. Severability of Invalid Provisions	50
Section 11.07. Notices	50
Section 11.08. Evidence of Rights of 2016 Bond Owners	50
Section 11.09. Disqualified 2016 Bonds	51
Section 11.10. Money Held for Particular 2016 Bonds	51
Section 11.11. Funds and Accounts	51

TABLE OF CONTENTS
(continued)

	<u>Page</u>
Section 11.12. Waiver of Personal Liability	51
Section 11.13. Execution in Several Counterparts	52
Section 11.14. CUSIP Numbers	52
Section 11.15. Choice of Law.....	52
Section 11.16. Paired Obligation Provider Guidelines.....	52
Section 11.17. [BOND INSURER PROVISIONS TO COME].....	52
Signatures	S-1
Exhibit A Form of 2016 Bond.....	A-1

INDENTURE OF TRUST

THIS INDENTURE OF TRUST is made and entered into and dated as of March 1, 2016 (the “Indenture”), by and between the CITY OF UKIAH, a municipal corporation and general law city duly organized and existing under the laws of the State of California (the “City”), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America, as trustee hereunder (the “Trustee”).

RECITALS

A. The City has determined that it is in the best interest of the public to prepay and defease that certain Installment Sale Agreement, dated as of September 1, 2005 (the “2005 Installment Sale Agreement”), by and between the City and the Association of Bay Area Governments (the “Prior Issuer”).

B. The City is authorized by Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, to issue bonds for the purpose of refunding any evidences of indebtedness of the City.

C. In order to provide for the authentication and delivery of refunding revenue bonds (the “2016 Bonds”), to establish and declare the terms and conditions upon which such 2016 Bonds are to be issued and secured and to secure the payment of the principal thereof and interest and premium, if any, thereon, the City has authorized the execution and delivery of the Indenture.

D. The City has determined that all acts and proceedings that are required by law and necessary to make the 2016 Bonds, when executed by the City, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal special obligations of the City, and to cause the Indenture to be a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture have been in all respects duly authorized.

GRANTING CLAUSES

The City, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created, the mutual covenants contained herein and the purchase and acceptance of the 2016 Bonds by the owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of and the interest and premium (if any) on all 2016 Bonds at any time issued and Outstanding under the Indenture, according to their terms, and to secure the performance and observance of all of the covenants and conditions therein and herein set forth, does hereby assign and pledge unto, and grant a security interest in, the following (the “Trust Estate”) to the Trustee, and its successors in trust and assigns forever, for the securing of the performance of the obligations of the City to the 2016 Bond Owners hereinafter set forth:

FIRST

All right, title and interest of the City in and to the Revenues (as such term is defined herein), including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect and receive any Revenues payable to or receivable by the City under the

Constitution of the State, the Government Code of the State, the Indenture and any other applicable laws of the State or otherwise, to bring actions and proceedings thereunder for the enforcement thereof, and to do any and all things which the City is or may become entitled to do thereunder, subject to the terms hereof.

SECOND

All moneys and securities held in funds and accounts of the Indenture, except amounts held in the Rebate Fund and the Rate Stabilization Fund (other than those amounts transferred by the City from the Rate Stabilization Fund to the Revenue Fund), and all other rights of every name and nature from time to time herein or hereafter by delivery or by writing of any kind pledged, assigned or transferred as and for additional security hereunder to the Trustee by the City or by anyone on its behalf, or with its written consent, and to hold and apply the same, subject to the terms hereof.

The Trust Estate shall be held by the Trustee and its respective successors in trust and assigns forever for the benefit of the Owners, and such pledge shall constitute a lien on and security interest in such Trust Estate.

The Trust Estate shall be held by the Trustee upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the 2016 Bonds issued under and secured by the Indenture without privilege, priority or distinction as to the lien or otherwise of any of the 2016 Bonds over any of the other 2016 Bonds.

PROVIDED, HOWEVER, that if the City, its successors or assigns shall pay, or cause to be paid, the principal of and interest and any redemption premium on the 2016 Bonds due or to become due thereon, at the times and in the manner provided in the 2016 Bonds according to the true intent and meaning thereof, keep, perform and observe all of the covenants and conditions of the Indenture to be kept, performed and observed by it, and pay or cause to be paid to Trustee all sums of money due or to become due in accordance with the terms and provisions hereof, then upon such final payments or deposits as herein provided, the Indenture and the rights hereby granted shall cease, terminate and be void; otherwise the Indenture shall remain in full force and effect.

It is expressly declared that all 2016 Bonds issued and secured hereunder are to be issued, authenticated and delivered, and all sold property, rights and interests, including, without limitation, the Revenues, hereby assigned and pledged, are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the City has agreed and covenanted and does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the 2016 Bonds, as follows:

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 will, for all purposes of the Indenture and of any indenture supplemental to the Indenture and of any certificate, opinion or other document mentioned in the Indenture, have the meanings specified in the Indenture, to be equally applicable to both the singular and plural forms of any of the terms defined in the Indenture.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Authorized Representative. The term "Authorized Representative" means, with respect to the City, its Mayor, Vice-Mayor, City Clerk, City Manager, Finance Director or any other person designated as an Authorized Representative of the City by a Certificate of the City signed by its Mayor, Vice-Mayor, City Clerk, City Manager or Finance Director and filed with the Trustee.

Bond Counsel. The term "Bond Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bond Insurer. The term "Bond Insurer" means _____, or any successor thereto.

Bonds. The term "Bonds" means all revenue bonds or notes of the City authorized, executed, issued and delivered by the City, the payments of which are payable from Net Revenues on a parity with the 2016 Bonds and which are secured by a pledge of and lien on Revenues as described in Section 5.01.

Bond Proceeds Fund. The term "Bond Proceeds Fund" means the fund by that name established with the Trustee pursuant to Section 3.05.

Bond Year. The term "Bond Year" means the period beginning on the date of issuance of the 2016 Bonds and ending on _____ 1, 2016, and each successive one year or, during the last period prior to maturity or the last period prior to redemption of all 2016 Bonds Outstanding at such time, shorter period thereafter, until there are no Outstanding 2016 Bonds.

Business Day. The term "Business Day" means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed; or (ii) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms "Certificate," "Direction," "Request" and "Requisition" of the City mean a written certificate, direction, request or requisition signed in the name of the City by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument will include the statements provided for in Section 1.02.

City. The term "City" means the City of Ukiah, a municipal corporation and general law city duly organized and existing under and by virtue of the laws of the State.

Closing Date. The term "Closing Date" means the date on which the 2016 Bonds are delivered to the original purchaser thereof.

Code. The term "Code" means the Internal Revenue Code of 1986, as amended.

Continuing Disclosure Certificate. The term "Continuing Disclosure Certificate" means the Continuing Disclosure Certificate of the City relating to the 2016 Bonds, dated the Closing Date, as

originally executed or as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term “Contracts” means all contracts of the City previously or later authorized and executed by the City, the payments under which are payable from Net Revenues on a parity with the 2016 Bonds and which are secured by a pledge and lien on Revenues as described in Section 5.01; but excluding contracts entered into for operation and maintenance of the Water System.

Costs of Issuance. The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, issuance, sale and delivery of the 2016 Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, letter of credit fees, bond insurance premiums and reserve surety premiums (if any), fees and charges of the Escrow Agent and verification agent, fees and charges for preparation, execution and safekeeping of the 2016 Bonds and any other cost, charge or fee in connection with the original issuance of the 2016 Bonds.

Costs of Issuance Fund. The term “Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.03.

Credit Facility. The term “Credit Facility” means a letter of credit, insurance policy, surety bond or other such funding instrument, including the Reserve Policy, issued by an entity the long-term unsecured obligations of which are rated “AA” or better by S&P and deposited with the Trustee into the Reserve Fund pursuant to Section 5.03.

Debt Service. The term “Debt Service” means, for any period of calculation, the sum of:

(1) the interest payable during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

(2) those portions of the principal amount of all outstanding serial Bonds maturing in such period;

(3) those portions of the principal amount of all outstanding term Bonds required to be redeemed or paid in such period; and

(4) those portions of the Contracts on which payments are required to be made during such period, (except to the extent that the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Contracts;

provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest at a fixed rate equal to the higher of:

(i) the then current variable interest rate borne by such Bonds or Contracts plus 1%; and

(ii) the highest variable rate borne over the preceding 24 months by outstanding variable rate debt issued by the City or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index comparable to that to be utilized in determining the interest rate for the debt then proposed to be issued;

provided further, that if twenty-five percent (25%) or more of the aggregate principal amount of any series or issue of such Bonds or Contracts is due in any one year, Debt Service will be determined for the period of determination as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further, that as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which such discount accretes with respect to such Bonds or Contracts or portions thereof, such accreted discount will be treated as interest in the calculation of Debt Service; and

provided further, that if the Bonds or Contracts constitute Paired Obligations, the interest rate on such Bonds or Contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the City with respect to such Paired Obligations, but only if the applicable Paired Obligations satisfy the requirements set forth in Section 11.16; and

provided further, that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established, and to the extent that the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

Depository; DTC. The term “Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as securities depository for the 2016 Bonds.

Escrow Agent. The term “Escrow Agent” means Wells Fargo Bank, National Association, as escrow agent pursuant to the terms of the Escrow Agreement (2005 Installment Sale Agreement), or its successor thereunder.

Escrow Agreement (2005 Installment Sale Agreement). The term “Escrow Agreement (2005 Installment Sale Agreement)” means the Escrow Agreement (2005 Installment Sale Agreement),

dated as of March 1, 2016, by and between the City and the Escrow Agent, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

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

Federal Securities. The term “Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fiscal Year. The term “Fiscal Year” means the twelve month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve month period later selected and designated as the official fiscal year period of the City.

Generally Accepted Accounting Principles. The term “Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Indenture. The term “Indenture” means this Indenture of Trust, dated as of March 1, 2016, by and between the City and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the City, each of whom is independent of the City pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the City, which may, for purposes of the certification described in the definition of “Paired Obligations” be an interest rate swap adviser, and who, or each of whom: (i) is in fact independent and not under domination of the City; (ii) does not have any substantial interest, direct or indirect, with the City; and (iii) is not connected with the City as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may specify in a certificate to the Trustee and as the Trustee may select.

Initial Rating Requirement. The term “Initial Rating Requirement” means the rating requirement described in Section 11.16(a).

Interest Account. The term “Interest Account” means the account by that name in the Payment Fund established pursuant to Section 5.02.

Interest Payment Date. The term “Interest Payment Date” means ____ 1, 2016 and each ____ 1 and ____ 1 thereafter.

Investment Agreement. The term “Investment Agreement” means an investment agreement by a provider, supported by appropriate opinions of counsel; provided that, without limiting the foregoing, any such Investment Agreement must: (i) be from a provider rated by S&P or Moody’s at “A-” or “A3”, respectively, or above; (ii) require the City to terminate such agreement and immediately reinvest the proceeds thereof in other Permitted Investments if the rating assigned to such provider by S&P or Moody’s falls to “BBB+” or “Baa1”, respectively, or below; and (iii) expressly permit the withdrawal, without penalty, of any amounts necessary at any time to fund any deficiencies on account of debt service requirements with respect to the 2016 Bonds, together with such amendments as may be approved by the City and the Trustee from time to time.

Late Payment Rate. The term “Late Payment Rate” means ____.

Law. The term “Law” means the laws of the State of California pursuant to which the City was formed and operates, and Section 5451 of the Government Code of the State of California, and in each case all laws amendatory thereof or supplemental thereto.

Letter of Representations. The term “Letter of Representations” means the letter of the City delivered to and accepted by the Depository on or prior to delivery of the 2016 Bonds as book entry bonds setting forth the basis on which the Depository serves as depository for such book entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the City delivered to and accepted by the Depository.

Minimum Rating Requirement. The term “Minimum Rating Requirement” means the rating requirement described in Section 11.16(b).

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

Net Proceeds. The term “Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Net Revenues. The term “Net Revenues” means, for any period, the Revenues for such period less the Operation and Maintenance Costs for such period. When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues will include all interest or gain derived from the investment of amounts in any of such funds or accounts.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.08.

Office. The term “Office” means with respect to the Trustee, the principal corporate trust office of the Trustee at _____, _____, California, Facsimile: _____, email: _____, Re: City of Ukiah Series 2016, or such other or additional offices as may be specified in writing by the Trustee to the City, except that, with respect to the presentation of 2016 Bonds for payment or for

registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid or incurred by the City to maintain and operate the Water System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Water System in good repair and working order, all administrative costs of the City that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, pension and other post-employment benefit obligations, 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 of the Indenture, any Supplemental Indenture or any Contracts or Bonds, such as compensation, reimbursement and indemnification of the Trustee and fees and expenses of Independent Certified Public Accountants; but excluding in all cases: (i) payment of Debt Service on Contracts, Bonds and obligations payable from Revenues on a subordinate basis to Contracts and Bonds; (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account; (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles; and (iv) and any amounts transferred to the Rate Stabilization Fund.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2016 Bonds, means (subject to the provisions of Section 11.09) all 2016 Bonds theretofore or thereupon being authenticated and delivered by the Trustee under the Indenture except: (i) 2016 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2016 Bonds with respect to which all liability of the City has been discharged in accordance with Section 10.02, including 2016 Bonds (or portions thereof) described in Section 11.09; and (iii) 2016 Bonds subject to transfer or exchange, or in lieu of or in substitution for which other 2016 Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2016 Bond Owner. The term “Owner” or “2016 Bond Owner,” whenever used in the Indenture with respect to a 2016 Bond, means the person in whose name the ownership of such 2016 Bond is registered on the Registration Books.

Paired Obligation Provider. The term “Paired Obligation Provider” means a party to a Paired Obligation other than the City.

Paired Obligations. The term “Paired Obligations” means any Bond or Contract (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, which are simultaneously issued or executed and delivered: (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates and in the same amounts; and (ii) the interest rates which, taken together, are reasonably expected to result in a fixed interest rate obligation of the City for the term of such Bond or Contract, as certified by an Independent Financial Consultant in writing, and which comply with the provisions of Section 11.16.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry certificates as securities depository.

Payment Fund. The term “Payment Fund” means the fund by that name established pursuant to Section 5.02.

Permitted Investments. The term “Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein. The Trustee is entitled to rely upon the written investment direction of the City as a representation that such investment constitutes a legal investment under the laws of the State.

(a) for all purposes, including but not limited to defeasance investments in refunding escrow accounts: (1) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in part (2) below); and (2) direct obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury, including REFCORP Interest STRIPS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; and

(b) for all purposes other than defeasance investments in refunding escrow accounts: (1) obligations of any of the following federal agencies that represent the full faith and credit of the United States of America, including the Export-Import Bank, Farmers Home Administration, General Services Administration, U.S. Maritime Administration, Government National Mortgage Association, U.S. Department of Housing & Urban Development (PHAs) and Federal Housing Administration; (2) bonds, notes or other evidences of indebtedness rated at least “AA-” or “Aa3” by the applicable Rating Agency issued by Fannie Mae or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years; (3) U.S. dollar denominated deposit accounts, certificates of deposit, federal funds and banker’s acceptances with domestic commercial banks (including the Trustee) which are either insured by the Federal Deposit Insurance Corporation or have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (4) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s and which matures not more than 270 days after the date of purchase; (5) investments in a money market fund rated “AAm”, “AAm-G”, “AAAm” or “AAAm-G” or better by S&P, including such funds for which the Trustee or an affiliate acts as investment advisor or provides other services; (6) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice and which are rated, based on the escrow, in the highest rating category of S&P and Moody’s; (7) any Investment Agreement; (8) the California Investment Trust; and (9) the State of California Local Agency Investment Fund.

Policy. The term “Policy” means the Municipal Bond Insurance Policy issued by the Bond Insurer that guarantees the scheduled payment of principal of and interest on the 2016 Bonds when due.

Principal Account. The term “Principal Account” means the account by that name in the Payment Fund established pursuant to Section 5.02.

Prior Issuer. The term “Prior Issuer” has the meaning set forth in the first recital of the Indenture.

Rate Stabilization Fund. The term “Rate Stabilization Fund” means the fund by that name continued pursuant to Section 5.09.

Rating. The term “Rating” means any currently effective rating on the 2016 Bonds issued by a Rating Agency.

Rating Agencies. The term “Rating Agencies” means S&P and any other nationally recognized statistical rating organization then rating the 2016 Bonds.

Rebate Fund. The term “Rebate Fund” means the fund by that name established pursuant to Section 5.08.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term “Redemption Date” means the date fixed for an optional redemption prior to maturity of the 2016 Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to Section 5.06.

Redemption Price. The term “Redemption Price” means, with respect to any 2016 Bond (or portion thereof), the principal amount of such 2016 Bond (or portion) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such 2016 Bond and the Indenture.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2016 Bonds pursuant to Section 2.05.

Reserve Fund. The term “Reserve Fund” means the fund by that name established in accordance with Section 5.03.

Reserve Insurer. The term “Reserve Insurer” means _____.

Reserve Policy. The term “Reserve Policy” means the financial guaranty insurance policy issued by the Reserve Insurer under which claims may be made in order to provide moneys in the Reserve Fund available for the purposes thereof.

Reserve Requirement. The term “Reserve Requirement” means, as of the date of calculation an amount equal to the least of: (i) “10% of the proceeds of the issue” of the 2016 Bonds within the meaning of Section 148 of the Code; (ii) the maximum amount of debt service on the 2016 Bonds payable in any one year; and (iii) 125% of the average amount of debt service on the 2016 Bonds payable in each year.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time are such officers, respectively, with responsibility for the administration of the Indenture.

Revenue Fund. The term “Revenue Fund” means the Water Fund of the City, or such other enterprise fund of the City in which Revenues are deposited.

Revenues. The term “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 (including connection fees, facility capacity fees and standby charges), rates, charges, amounts paid under any contracts received by or owed to the City in connection with the operation of the Water System, proceeds of insurance relating to the Water System, investment income allocable to the Water System and other income and revenue howsoever derived by the City from the ownership or operation of the Water System or arising from the Water System, subject to and after satisfaction of any obligations payable on a senior basis to Bonds and Contracts, and investment earnings on amounts held in the Revenue Fund; but excluding in all cases: (i) customer deposits or any other deposits or advances that are subject to refund until such deposits or advances have become the property of the City; and (ii) any proceeds of taxes or assessments that are restricted by law to be used by the City to pay bonds or other obligations later issued.

“Revenues” also include all amounts transferred from the Rate Stabilization Fund to the Revenue Fund during any Fiscal Year in accordance with Section 5.09 and do not include any amounts transferred from the Revenue Fund to the Rate Stabilization Fund during any Fiscal Year in accordance with Section 5.01(b)(iii).

S&P. The term “S&P” means Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a Written Request of the City deliver to the Trustee.

State. The term “State” means the State of California.

State Loan. The term “State Loan” means Loan Contract No. E54304, dated September 30, 1988, by and between the City and the State of California Department of Water Resources.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture later duly authorized and entered into between the City and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date concerning certain matters pertaining to the use and investment of proceeds of the 2016 Bonds, including any and all exhibits attached thereto.

Trustee. The term “Trustee” means Wells Fargo Bank, National Association, a national banking association duly organized and existing under the laws of the United States of America, or its successor as Trustee under the Indenture as provided in Section 8.01.

2005 Installment Sale Agreement. The term “2005 Installment Sale Agreement” means the Installment Sale Agreement, dated as of September 1, 2005, by and between the City and the Prior Issuer, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

2016 Bonds. The term “2016 Bonds” means the City of Ukiah Water Revenue Refunding Bonds, Series 2016 issued by the City and at any time Outstanding pursuant to the Indenture.

Valuation Date. “Valuation Date” means the fifth Business Day preceding the date of redemption.

Value. The term “Value,” which will be determined as of the end of each month, means that the value of any investments will be calculated as follows:

(a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund will be valued at fair market value. The Trustee will determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Bank of America Merrill Lynch and Morgan Stanley Smith Barney.

(b) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest.

(c) As to any investment not specified above: market value, or, if the market value is not ascertainable by the City or the Trustee, at cost.

Water Service. The term “Water Service” means the water distribution service made available or provided by the Water System.

Water System. The term “Water System” means the whole and each and every part of the water system of the City, including the portion thereof existing on the Closing Date, and including all additions, betterments, extensions and improvements to such water system or any part thereof later acquired or constructed; but not including the City’s wastewater system or recycled water system unless otherwise designated by the City Council of the City.

Written Consent of the City; Written Order of the City; Written Request of the City; Written Requisition of City. The terms “Written Consent of the City,” “Written Order of the City,” “Written Request of the City” and “Written Requisition of the City” mean, respectively, a written consent, order, request or requisition signed by or on behalf of the City by an Authorized Representative or by any two persons (whether or not members of the City Council) who are specifically authorized by resolution of the City to sign or execute such a document on its behalf.

Section 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture except the certificate of destruction provided for in Section 11.05, with respect to compliance with any provision of the Indenture must include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions in the Indenture relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Independent Certified Public Accountant or Independent Financial Consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Independent Certified Public Accountant or Independent Financial Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City) upon a certificate or opinion of or representation by an officer of the City, unless such counsel, Independent Certified Public Accountant or Independent Financial Consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the City, or the same counsel or Independent Certified Public Accountant or Independent Financial Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Indenture, but different officers, counsel or Independent Certified Public Accountants or Independent Financial Consultants may certify to different matters, respectively.

Section 1.03. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and will be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections in the Indenture and the table of contents are solely for convenience of reference, do not constitute a part of the Indenture and do not affect the meaning, construction or effect thereof.

(c) All references in the Indenture to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to the Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE 2016 BONDS

Section 2.01. Authorization of 2016 Bonds. The City hereby authorizes the issuance under the Indenture from time to time of the 2016 Bonds, which constitute special obligations of the City, for the purpose of prepaying all amounts payable under the 2005 Installment Sale Agreement and the State Loan. The 2016 Bonds are hereby designated the “City of Ukiah Water Revenue Refunding Bonds, Series 2016” in the aggregate principal amount of \$_____. The Indenture constitutes a continuing agreement with the Owners from time to time of the 2016 Bonds to secure the full payment of the principal of and interest and premium (if any) on all of the 2016 Bonds, subject to the covenants, provisions and conditions contained in the Indenture.

Section 2.02. Terms of the 2016 Bonds. The 2016 Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. The 2016 Bonds will mature on _____ 1 in each of the years and in the amounts set forth below and will bear interest on each Interest Payment Date at the rates set forth below:

<i>Maturity Date</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
<i>(_____ 1)</i>	<i>\$</i>	<i>%</i>

Interest on the 2016 Bonds will be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books (except that in the case of an Owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such Owner’s option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the Record Date. Principal of and premium (if any) on any 2016 Bond will be paid by check of the Trustee upon presentation and surrender thereof at maturity or upon the prior redemption thereof, at the Office of the Trustee. Both the principal of and interest and premium (if any) on the 2016 Bonds will be payable in lawful money of the United States of America.

Each 2016 Bond will be dated the date of initial delivery, and will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before _____ 15, 2016, in which event it will bear interest from the date of initial delivery; provided, however, that if, as of the date of authentication of any 2016 Bond, interest thereon is in default, such 2016 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest on the 2016 Bonds will be calculated on the basis of a 360 day year composed of twelve 30 day months.

Section 2.03. Transfer of 2016 Bonds. Any 2016 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by

his or her duly authorized attorney, upon surrender of such 2016 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee is not required to register the transfer of any 2016 Bond during the period in which the Trustee is selecting 2016 Bonds for redemption and any 2016 Bond that has been selected for redemption.

Whenever any 2016 Bond or 2016 Bonds is surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new 2016 Bond or 2016 Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the 2016 Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds that it has received.

Section 2.04. Exchange of 2016 Bonds. 2016 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee is not required to exchange any 2016 Bond during the period in which the Trustee is selecting 2016 Bonds for redemption or any 2016 Bond that has been selected for redemption. The Trustee will require the 2016 Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds that it has received.

Section 2.05. Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2016 Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the City and the Owners; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register, transfer or cause to be registered or transferred, on such records, the ownership of the 2016 Bonds as provided in the Indenture.

The person in whose name any 2016 Bond is registered will be deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest on and principal and Redemption Price of by such 2016 Bonds will be made only to or upon the order in writing of such registered Owner, which payments will be valid and effectual to satisfy and discharge liability upon such 2016 Bond to the extent of the sum or sums so paid.

Section 2.06. Form and Execution of 2016 Bonds. The 2016 Bonds will be in substantially the form set forth in Exhibit A. The 2016 Bonds will be executed in the name and on behalf of the City with the manual or facsimile signature of its Mayor or Vice-Mayor. The 2016 Bonds may carry a seal, and such seal may be in the form of a facsimile of the City's seal and may be reproduced, imprinted or impressed on the 2016 Bonds. The 2016 Bonds will be delivered to the Trustee for authentication. In case any of the officers who have signed or attested any of the 2016 Bonds cease to be such officer or officers of the City before the 2016 Bonds so signed or attested have been authenticated or delivered by the Trustee, or issued by the City, such 2016 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, will be as binding upon the City as though those who signed and attested the same had continued to be such officers of the City. Any 2016 Bonds may be signed and attested on behalf of the City by persons as who are proper officers of the City at the time of such signature and attestation although at the nominal date of such 2016 Bonds any such persons are not such officers of the City.

Only 2016 Bonds that bear a certificate of authentication substantially in the form set forth in Exhibit A, manually executed by the Trustee, will be valid or obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of or on behalf of the Trustee is conclusive evidence that the 2016 Bonds so authenticated have been duly executed, authenticated and delivered under the Indenture and are entitled to the benefits of the Indenture.

Section 2.07. 2016 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2016 Bond becomes mutilated, the City, at the expense of the Owner of said 2016 Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2016 Bond of like tenor, series and authorized denomination in exchange and substitution for the 2016 Bonds so mutilated, but only upon surrender to the Trustee of the 2016 Bond so mutilated. Every mutilated 2016 Bond so surrendered to the Trustee will be canceled by it and upon the Written Request of the City delivered to, or upon the order of, the City. If any 2016 Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee is given, the City, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new 2016 Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2016 Bond so lost, destroyed or stolen (or if any such 2016 Bond has matured or is about to mature, instead of issuing a substitute 2016 Bond, the Trustee may pay the same without surrender thereof). The City may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2016 Bond and of the expenses which may be incurred by the City and the Trustee with respect thereto. Any 2016 Bond issued under the provisions of the Indenture in lieu of any 2016 Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the City, whether or not the 2016 Bond so alleged to be lost, destroyed, or stolen is at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other 2016 Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2016 Bond for a 2016 Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may make payment of such 2016 Bond upon receipt of indemnity satisfactory to the Trustee.

Section 2.08. Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2016 Bonds, the City may provide that such 2016 Bonds will be initially issued as book entry 2016 Bonds. If the City elects to deliver any 2016 Bonds in book entry form, the City will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2016 Bonds in an authorized denomination corresponding to the total principal amount of the 2016 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2016 Bond will be registered in the 2016 Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2016 Bonds, or any portion thereof may not thereafter be transferred except as provided in Section 2.08(e).

With respect to book entry 2016 Bonds, the City and the Trustee have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry 2016 Bonds. Without limiting the immediately preceding sentence, the City and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry 2016 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2016 Bond Registration Books, of any notice with respect to book entry 2016 Bonds, including

any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2016 Bonds to be redeemed in the event that the City redeems the 2016 Bonds in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest on book entry 2016 Bonds. The City and the Trustee may treat and consider the person in whose name each book entry 2016 Bond is registered in the 2016 Bond Registration Books as the absolute Owner of such book entry 2016 Bond for the purpose of payment of principal of, premium and interest on such 2016 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2016 Bond, for the purpose of registering transfers with respect to such 2016 Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2016 Bonds only to or upon the order of the respective Owner, as shown in the 2016 Bond Registration Books, or such Owner's respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of, premium, if any, and interest on the 2016 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2016 Bond Registration Books, may receive a 2016 Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2016 Bonds. Upon delivery by the Depository to the City and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture will refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book entry 2016 Bonds for the Depository's book entry system, the City and the Trustee (if required by the Depository) will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations does not in any way impose upon the City or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2016 Bonds other than the Owners, as shown on the 2016 Bond Registration Books. By executing a Letter of Representations, the Trustee will agree to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the City and the Trustee will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book entry 2016 Bonds for the Depository's book entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book entry 2016 Bonds; or (ii) the City determines that continuation of the book entry system is not in the best interest of the beneficial owners of the 2016 Bonds or the City, then the City will discontinue the book entry system with the Depository. If the City determines to replace the Depository with another qualified securities depository, the City will prepare or direct the preparation of a new single, separate, fully registered 2016 Bond for each of the maturity dates of such book entry 2016 Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in subsection (e) below. If the City fails to identify another qualified securities depository to replace the Depository, then the 2016 Bonds will no longer be restricted to being registered in such 2016 Bond Registration Books in the name of the Nominee, but may be registered in whatever name or names the Owners transferring or exchanging such 2016 Bonds designate, in accordance with the provisions of Sections 2.03 and 2.04.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding 2016 Bonds are held in book entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and

interest on such 2016 Bonds and all notices with respect to such 2016 Bonds will be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of 2016 Bonds to Substitute Depository.

(i) The 2016 Bonds will be initially issued as provided in Section 2.01. Registered ownership of such 2016 Bonds, or any portions thereof, may not thereafter be transferred except:

(A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) of subsection (i) of this Section 2.08(e) (“Substitute Depository”); provided that any successor of DTC or Substitute Depository is qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository is qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2016 Bonds by the Trustee, together with a Written Request of the City to the Trustee designating the Substitute Depository, a single new 2016 Bond, which the City will prepare or cause to be prepared, will be issued for each maturity of 2016 Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such Written Request of the City. In the case of any transfer pursuant to clause (C) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2016 Bonds by the Trustee, together with a Written Request of the City to the Trustee, new 2016 Bonds, which the City will prepare or cause to be prepared, shall all be issued in such denominations and registered in the names of such persons as are requested in such Written Request of the City, subject to the limitations of Section 2.01, provided that the Trustee is not required to deliver such new 2016 Bonds within a period of less than sixty (60) days from the date of receipt of such Written Request from the City.

(iii) In the case of a partial redemption or an advance refunding of any 2016 Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2016 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee is not liable for such Depository’s failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2016 Bonds will be controlling.

(iv) The City and the Trustee are entitled to treat the person in whose name any 2016 Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2016 Bonds. Neither the City nor the Trustee have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2016 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2016 Bonds.

ARTICLE III

ISSUANCE OF 2016 BONDS; APPLICATION OF PROCEEDS

Section 3.01. Issuance of the 2016 Bonds. At any time after the execution of the Indenture, the City may execute and the Trustee will authenticate and, upon Written Request of the City, deliver the 2016 Bonds in the aggregate principal amount of \$_____.

Section 3.02. Application of Proceeds of the 2016 Bonds. The proceeds of the sale of the 2016 Bonds, less the amount of \$_____ to be paid directly to the Bond Insurer as the premium for the Policy and the Reserve Policy, will be deposited with the Trustee, who will deposit the amount of \$_____ into the Bond Proceeds Fund and the amount of \$_____ into the Costs of Issuance Fund. The Trustee may establish temporary funds or accounts in its records to record and facilitate such transfer and deposit.

Section 3.03. Establishment and Application of Costs of Issuance Fund. The Trustee will establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund will be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Requisitions of the City stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred, that such payment is proper charge against said fund and that payment for such charge has not previously been made. On the six month anniversary of the Closing Date, or upon the earlier Written Request of the City, all amounts remaining in the Costs of Issuance Fund will be transferred by the Trustee to the Interest Account, and the Costs of Issuance Fund will be closed. Investment earnings on amounts on deposit in the Costs of Issuance Fund will be applied in accordance with Section 5.07.

Section 3.04. Validity of 2016 Bonds. The validity of the authorization and issuance of the 2016 Bonds is not dependent on and will not be affected in any way by any proceedings taken by the City or the Trustee with respect to any other agreement. The recital contained in the 2016 Bonds that the same are issued pursuant to the Constitution and laws of the State is conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

Section 3.05. Establishment and Application of Bond Proceeds Fund. The Trustee will establish, maintain and hold in trust a separate fund designated as the "Bond Proceeds Fund." Upon the receipt of moneys in the Bond Proceeds Fund, the Trustee will: (i) promptly transfer \$_____ to the Escrow Agent for deposit in the escrow fund created pursuant to the Escrow Agreement (2005 Installment Sale Agreement); and (ii) retain the remaining moneys in the Bond Proceeds Fund uninvested until April 1, 2016, at which time, in accordance with instructions provided by the City,

the Trustee will deliver a check to the State of California Department of Water Resources in the amount of \$_____ to prepay the State Loan. The Bond Proceeds Fund will thereafter be closed.

ARTICLE IV

REDEMPTION OF 2016 BONDS

Section 4.01. Terms of Redemption.

(a) The 2016 Bonds with stated maturities on or after _____ 1, 20__, are subject to redemption prior to their respective stated maturities, as a whole or in part, on any date on or after _____ 1, 20__, as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice being for the convenience of the Trustee) prior to the Redemption Date, and by lot within each maturity in integral multiples of \$5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

(b) The 2016 Bonds maturing on _____ 1, 20__ are subject to mandatory sinking fund redemption in part (by lot) on each _____ 1 on and after _____ 1, 20__, in integral multiples of \$5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium, in accordance with the below schedule. On each of the following payment dates, the Trustee will pay from the Redemption Fund an amount equal to the payment or payments due on such date as set forth below.

***Mandatory Sinking
Fund Redemption***

<i>Date (_____ 1)</i>	<i>Principal Amount</i>
	\$

(maturity)

If some, but not all, of the 2016 Bonds maturing on _____ 1, 20__ have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of such 2016 Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the City, which will notify the Trustee in writing of such determination.

(c) The 2016 Bonds are subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice being for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided

for in, Sections 6.19 and 6.23, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Section 4.02. Selection of 2016 Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2016 Bonds, the Trustee will select the 2016 Bonds for redemption as a whole or in part on any date as directed by the City and by lot within each maturity in integral multiples of \$5,000 in accordance with Section 4.01, and in the absence of such direction, in inverse order of maturity. The Trustee will promptly notify the City in writing of the numbers of the 2016 Bonds or portions thereof so selected for redemption.

Section 4.03. Notice of Redemption. Notice of redemption will be mailed by first class mail at least twenty (20) days but not more than sixty (60) days before any Redemption Date, to the respective Owners of any 2016 Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services; provided that, in the case of notice of optional redemption not related to an advance or current refunding, such notice may be given only if sufficient funds have been deposited with the Trustee to pay the applicable Redemption Price of the 2016 Bonds to be redeemed; and provided further, that such notice may be cancelled by the City upon Written Request delivered to the Trustee not less than five (5) days prior to such Redemption Date. Each notice of redemption must: (a) state the date of notice, the Redemption Date, the place or places of redemption and the Redemption Price; and (b) designate the maturities, CUSIP numbers, if any, and, if less than all 2016 Bonds of any such maturity are to be redeemed, the serial numbers of the 2016 Bonds of such maturity to be redeemed by giving the individual number of each 2016 Bond or by stating that all 2016 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2016 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice must also state that on the Redemption Date there will become due and payable on each of said 2016 Bonds or parts thereof designated for redemption the Redemption Price thereof, or of said specified portion of the principal thereof in the case of a 2016 Bond to be redeemed in part only, together with interest accrued thereon to the Redemption Date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such Redemption Date interest thereon will cease to accrue, and will require that such 2016 Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2016 Bond. Notice of redemption of 2016 Bonds will be given by the Trustee, at the expense of the City, for and on behalf of the City.

With respect to any notice of optional redemption of 2016 Bonds, such notice may state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2016 Bonds to be redeemed and that, if such moneys have not been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such 2016 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Section 4.04. Partial Redemption of 2016 Bonds. Upon surrender of any 2016 Bond redeemed in part only, the City will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the City, a new 2016 Bond or 2016 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2016 Bonds surrendered and of the same series, interest rate and maturity.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the 2016 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2016 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2016 Bonds so called for redemption will cease to accrue, said 2016 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2016 Bonds will have no rights in respect thereof except to receive payment of the Redemption Price thereof. The Trustee will, upon surrender for payment of any of the 2016 Bonds to be redeemed on their Redemption Dates, pay such 2016 Bonds at the Redemption Price.

All 2016 Bonds redeemed pursuant to the foregoing provisions will be canceled upon surrender thereof.

ARTICLE V

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Section 5.01. Pledge and Assignment; Revenue Fund.

(a) All of the Revenues, all amounts held in the Revenue Fund described in subsection (b) below, the Reserve Fund described in Section 5.03 and amounts transferred from the Rate Stabilization Fund to the Revenue Fund described in Section 5.09 and any other amounts (including proceeds of the sale of the 2016 Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund and the Rate Stabilization Fund (other than those amounts transferred by the City from the Rate Stabilization Fund to the Revenue Fund)) are hereby irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2016 Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues may not be used for any other purpose while the 2016 Bonds remain Outstanding; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Indenture. The foregoing pledge, together with the pledge created by all other Contracts and Bonds, constitutes a first lien on and security interest in Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted in the Indenture, the Revenue Fund and other funds and accounts created under the Indenture for the payment of the principal of and interest, and the premium, if any, on the 2016 Bonds and all Contracts and Debt Service on Bonds in accordance with the terms of the Indenture. Such pledge will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act, and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice of the Indenture.

(b) In order to carry out and effectuate the pledge and lien contained in the Indenture, the City agrees and covenants that all Revenues will be received by the City in trust and deposited when and as received in the Revenue Fund, which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as the 2016 Bonds and any Contracts or Debt Service on Bonds remain unpaid. Moneys in the Revenue Fund will be used and applied by the City as provided in the Indenture. All moneys in the Revenue Fund will be held in trust and applied, used and withdrawn for the purposes set forth in the Indenture.

The City will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Revenue Fund will be set aside by the City at the following times for the transfer to the following respective special funds in the following order of priority:

(i) Interest and Principal Payments. Not later than the Business Day prior to each Interest Payment Date, the City will, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund or the Redemption Fund the payments of interest and principal or mandatory sinking fund payments, as applicable, on the 2016 Bonds due and payable on such Interest Payment Date. The City will also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

(ii) Reserve Funds. On or before each Interest Payment Date, the City will, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for such reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement with respect thereto.

(iii) Surplus. Moneys on deposit in the Revenue Fund on any date when the City reasonably expects that such moneys will not be needed for the payment of Operation and Maintenance Costs or any of the purposes described in clauses (b)(i) or (b)(ii) may be expended by the City at any time for any purpose permitted by law or deposited in the Rate Stabilization Fund.

(iv) Investments. All moneys held by the City in the Revenue Fund may be invested in Permitted Investments, and the investment earnings thereon will remain on deposit in such fund, except as otherwise provided in the Indenture.

Section 5.02. Allocation of Revenues. There is hereby established with the Trustee the Payment Fund, which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the 2016 Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the 2016 Bonds received by the Trustee pursuant to Section 5.01(b) will be promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required by the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All payments of interest and principal on the 2016 Bonds deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will establish and hold an Interest Account and a Principal Account within the Payment Fund.

The Trustee will transfer from the Payment Fund and deposit into the following respective accounts, the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Not later than the Business Day preceding each Interest Payment Date, the Trustee will deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all 2016 Bonds then Outstanding. No deposit needs to be made into the Interest Account if there is in such fund an amount sufficient to pay the interest becoming due and payable on such date on all 2016 Bonds then Outstanding.

(b) Not later than the Business Day preceding each date on which the principal of the 2016 Bonds becomes due and payable under the Indenture, the Trustee will deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2016 Bonds coming due and payable on such date. No deposit needs to be made into the Principal Account if there is in such fund moneys sufficient to pay the principal becoming due and payable on such date on all 2016 Bonds then Outstanding.

Section 5.03. Reserve Fund. [TO BE REVISED TO CONFORM TO INSURANCE REQUIREMENTS] The Trustee shall establish and maintain as security solely for the 2016 Bonds a separate fund designated the "Reserve Fund." The Reserve Policy will be deposited in the Reserve Fund on the Closing Date. Upon the prior written consent of the Reserve Insurer (so long as the Reserve Policy is in full force and effect and the Reserve Insurer has not defaulted on its obligations thereunder), the City may substitute another Credit Facility (other than the Reserve Policy) for all or part of the moneys on deposit in the Reserve Fund by depositing such Credit Facility with the Trustee; provided that, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under all Credit Facilities (including the Reserve Policy), is at least equal to the Reserve Requirement. Moneys for which a Credit Facility has been substituted as provided herein will be transferred, at the election of the City, to the Interest Account.

(a) Amounts on deposit in the Reserve Fund which were not derived from payments under the Reserve Policy or another Credit Facility credited to the Reserve Fund to satisfy a portion of the Reserve Requirement will be used and withdrawn by the Trustee prior to using and withdrawing any amounts derived from payments under the Reserve Policy or other Credit Facility. In order to accomplish the use and withdrawal of such amounts not derived from payments under the Reserve Policy or another Credit Facility, the Trustee will, as and to the extent necessary, liquidate any investments purchased with such amounts.

(b) At least five (5) Business Days before any Interest Payment Date, the Trustee will ascertain the necessity for a claim under the Reserve Policy or other Credit Facility in accordance with the terms hereof, and will provide notice to the Reserve Insurer and the provider of any other Credit Facility at least five (5) Business Days prior to each date upon which interest or principal is due on the 2016 Bonds.

If five (5) Business Days before any Interest Payment Date, the moneys available in the Payment Fund do not equal the amount of the principal of and interest on the 2016 Bonds then coming due and payable, the Trustee will apply the moneys available in the Reserve Fund to make delinquent payments of principal of and interest on the 2016 Bonds on behalf of the City by transferring the amount necessary for such purpose to the Payment Fund. All cash and investments in the Reserve Fund will be transferred to the Payment Fund before any drawing may be made on the Reserve Policy or any other Credit Facility. The Trustee will take whatever action is necessary to liquidate or draw upon investments of funds held in the Reserve Fund or draw upon the Reserve

Policy or other Credit Facility to make such funds available for application as provided in the Indenture on the Interest Payment Date.

Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage will be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. “Available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable Credit Facilities without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provide to honor any such claim or draw.

The Trustee will repay the Reserve Insurer any draws under the Reserve Policy, together with interest thereon, at the Late Payment Rate from Revenues received from the City. The Trustee will also pay all related reasonable expenses incurred by the Reserve Insurer, together with interest thereon, at the Late Payment Rate from Revenues received from the City.

Repayment of draws under the Reserve Policy and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, “Policy Costs”) will commence in the first month following each draw, and each such monthly payment will be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw. Payment of any Policy Costs and reimbursements of amounts with respect to other Credit Facilities will be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund.

Amounts in respect of Policy Costs paid to the Reserve Insurer will be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Reserve Insurer on account of principal drawn on the Reserve Policy, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

If the City fails to pay any Policy Costs in accordance with the requirements of the Indenture, the Reserve Insurer will be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture, other than remedies which would adversely affect owners of the 2016 Bonds. The Indenture may not be discharged or terminated until all Policy Costs that are owed to the Reserve Insurer have been paid in full. The City’s obligation to pay such amounts will expressly survive payment in full of the 2016 Bonds.

Moneys, if any, on deposit in the Reserve Fund (or the applicable account therein) will be withdrawn and applied by the Trustee for the final payment or payments of principal of and interest on the 2016 Bonds (or the applicable account therein,) respectively.

(c) In the event of any transfer from the Reserve Fund or the making of any claim under a Credit Facility, the Trustee will, within five days thereafter, provide written notice to the City of the amount and the date of such transfer or claim.

(d) So long as no Event of Default has occurred and is continuing, any amount in the Reserve Fund (or the applicable account therein) in excess of the Reserve Requirement (or applicable reserve requirement) on February 15 or August 15 of each year will be withdrawn from the Reserve Fund (or the applicable account therein) by the Trustee, and such amount will be deposited in the Interest Account.

(e) In no event will amounts in the Reserve Fund be applied to payment of any Bonds or Contracts other than the 2016 Bonds.

Section 5.04. Application of Interest Account. All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2016 Bonds as it becomes due and payable (including accrued interest on any 2016 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

Section 5.05. Application of Principal Account. All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2016 Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2016 Bonds, upon written direction of the City, the Trustee may apply such amounts to the purchase of 2016 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2016 Bonds.

Section 5.06. Application of Redemption Fund. There is hereby established with the Trustee a special fund designated as the "Redemption Fund." All amounts in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2016 Bonds to be redeemed on any Redemption Date pursuant to Section 4.01; provided, however, that at any time prior to selection for redemption of any such 2016 Bonds, upon written direction of the City, the Trustee may apply such amounts to the purchase of 2016 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2016 Bonds.

Section 5.07. Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments. Such investments will be directed by the City pursuant to a Written Request of the City filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions will be promptly confirmed to the Trustee in writing). In the absence of any such directions from the City, the Trustee will invest any such moneys in Permitted Investments described in clause (b)(5) of the definition thereof; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received a written direction from the City specifying a specific money market fund and, if no such written direction from the City is so received, the Trustee will hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds (other than the Rebate Fund) held by it upon the Written Request of the City. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee will incur no liability for losses arising from any investments made pursuant to the Indenture.

The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the City. Upon the City's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The City waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The City further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

The City will invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate.

For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but will account for each separately. In making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those available through the Trustee accounting system.

Section 5.08. Rebate Fund.

(a) Establishment. The Trustee will establish a fund for the 2016 Bonds designated the "Rebate Fund" when required in accordance with the Indenture. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2016 Bonds will not be adversely affected, the City will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the 2016 Bonds will be governed by this Section and the Tax Certificate, unless and to the extent that the City delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2016 Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained in the Indenture or in the Tax Certificate, the Trustee: (i) will be deemed conclusively to have complied with the provisions thereof if it follows all Requests of the City; (ii) has no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate; (iii) may rely conclusively on the City's calculations and determinations and certifications relating to rebate matters; and (iv) has no responsibility to independently make any calculations or determinations or to review the City's calculations or determinations thereunder.

(i) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the City will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (*e.g.*, the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of

Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The City will obtain expert advice as to the amount of the Rebtable Arbitrage to comply with this Section.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Request of the City, an amount will be deposited to the Rebate Fund by the Trustee from any Net Revenues legally available for such purpose (as specified by the City in the aforesaid Written Request), if and to the extent required so that the balance in the Rebate Fund equals the amount of Rebtable Arbitrage so calculated in accordance with clause (i) of this subsection (a). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of the City, the Trustee will withdraw the excess from the Rebate Fund and credit the excess to the Payment Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Written Request of the City, to the United States Treasury, out of amounts in the Rebate Fund:

(A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebtable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all the 2016 Bonds, an amount equal to 100% of the Rebtable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebtable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this subsection (a) will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the City), or will be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the 2016 Bonds and the payments described in subsection (a) above being made may be withdrawn by the City and utilized in any manner by the City.

(c) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation to comply with the requirements of this Section will survive the defeasance or payment in full of the 2016 Bonds.

Section 5.09. Rate Stabilization Fund. There is hereby continued a special fund designated as the “Rate Stabilization Fund” to be held by the City in trust under the Indenture, which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. Money transferred by the City from the Revenue Fund to the Rate Stabilization Fund in accordance with Section 5.01(b)(iii) will be held in the Rate Stabilization Fund and applied in accordance with the Indenture.

The City may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Revenue Fund for application in accordance with Section 5.01 or, in the event that all or a portion of the 2016 Bonds are discharged in accordance with Article X, transfer all or any portion of such amounts for application in accordance with Article X. Any such amounts transferred from the Rate Stabilization Fund to the Revenue Fund in accordance with the Indenture constitute pledged Revenues.

Section 5.10. Application of Funds and Accounts When No 2016 Bonds are Outstanding. On the date on which all 2016 Bonds are retired or provision made therefor pursuant to Article X, and after payment of all amounts due the Trustee under the Indenture, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the City for use by the City at any time for any purpose permitted by law.

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01. Punctual Payment. The City will punctually pay, or cause to be paid, the principal and interest to become due in respect of all of the 2016 Bonds, in strict conformity with the terms of the 2016 Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in the Indenture.

Section 6.02. Extension of Payment of 2016 Bonds. The City will not directly or indirectly extend or assent to the extension of the maturity of any of the 2016 Bonds or the time of payment of any claims for interest by the purchase of such 2016 Bonds or by any other arrangement, and in case the maturity of any of the 2016 Bonds or the time of payment of any such claims for interest is extended, such 2016 Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the 2016 Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Indenture will be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding 2016 Bonds, and such issuance will not be deemed to constitute an extension of maturity of 2016 Bonds.

Section 6.03. Against Encumbrances. The City will not make any pledge of, or place any lien on, Revenues or the moneys in the Revenue Fund except as provided in the Indenture. The City may at any time, or from time to time, execute Contracts or issue Bonds as permitted in the Indenture. The City may also at any time, or from time to time, incur evidences of indebtedness, or incur other obligations, for any lawful purpose which are payable from and secured by a pledge of lien on Revenues on any moneys in the Revenue Fund as may from time to time be deposited therein, provided that such pledge and lien is subordinate in all respects to the pledge of and lien thereon provided in the Indenture.

Section 6.04. Power to Issue 2016 Bonds and Make Pledge and Assignment. The City is duly authorized pursuant to law to issue the 2016 Bonds, to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The 2016 Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the City in accordance with their terms, and the City and the Trustee will at all times, subject to the provisions of Article

VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the 2016 Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Section 6.05. Accounting Records and Financial Statements.

(a) The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries are made of all transactions made by it relating to the proceeds of 2016 Bonds and all funds and accounts established by it pursuant to the Indenture. Such books of record and account will be available for inspection by the City upon reasonable prior notice during business hours and under reasonable circumstances.

(b) The City will keep appropriate accounting records in which complete and correct entries are made of all transactions relating to the Water System, which records will be available for inspection by the Trustee (which has no duty to inspect such records) at reasonable hours and under reasonable conditions.

(c) The City will prepare and file with the Trustee annually, within two hundred seventy (270) days of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2016), financial statements of the City for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon. The Trustee has no duty to review such financial statements.

Section 6.06. Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of the portion of interest on the 2016 Bonds will not be adversely affected for federal income tax purposes, the City covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the 2016 Bonds, and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The City will take no action or refrain from taking any action or make any use of the proceeds of the 2016 Bonds or of any other moneys or property which would cause the 2016 Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

(b) Arbitrage. The City will make no use of the proceeds of the 2016 Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the 2016 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The City will make no use of the proceeds of the 2016 Bonds or take or omit to take any action that would cause the 2016 Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The City will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2016 Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The City will make no use of the proceeds of the 2016 Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the 2016 Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the City takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2016 Bonds for federal income tax purposes; and

(f) Miscellaneous. The City will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed by the City in connection with the issuance of the 2016 Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

The foregoing covenants are not applicable to, and nothing contained in the Indenture will be deemed to prevent the City from causing the Trustee to issue revenue bonds or to execute and deliver contracts payable on a parity with the 2016 Bonds, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Section 6.07. Waiver of Laws. The City will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time later in force that may affect the covenants and agreements contained in the Indenture or in the 2016 Bonds, and all benefit or advantage of any such law or laws is expressly waived by the City to the extent permitted by law.

Section 6.08. Further Assurances. The City will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the 2016 Bonds of the rights and benefits provided in the Indenture.

Section 6.09. Budgets. On or prior to the fifteenth day of each Fiscal Year, the City will certify to the Trustee that the amounts budgeted for payment of the principal of and interest on the 2016 Bonds are fully adequate for the payment of all such payments for such Fiscal Year. If the amounts so budgeted are not adequate for the payment of the principal of and interest on the 2016 Bonds due under the Indenture, the City will take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the City in the then ensuing Fiscal Year for the payment of the principal of and interest on the 2016 Bonds due under the Indenture and will notify the Trustee of the proceedings then taken or proposed to be taken by the City.

Section 6.10. Observance of Laws and Regulations. To the extent necessary to assure its performance under the Indenture, the City will well and truly keep, observe and perform all valid and lawful obligations or regulations now or later imposed on the City by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or later acquired by the City, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Section 6.11. Compliance with Contracts. The City will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or

adversely affect the ability of the City to pay principal of or interest on the 2016 Bonds; and the City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Water System, to the extent that the City is a party thereto.

Section 6.12. Prosecution and Defense of Suits. The City will promptly, upon request of the Trustee or any 2016 Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water System or any part thereof, whether now existing or later developing, prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and indemnify and save the Trustee (including all of its employees, officers and directors) and every 2016 Bond Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The City will defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) or any 2016 Bond Owner upon any claim arising out of the receipt, application or disbursement of any of the payments of principal of or interest on the 2016 Bonds or involving the rights of the Trustee or any 2016 Bond Owner under the Indenture; provided that the Trustee or any 2016 Bond Owner at such party's election may appear in and defend any such suit, action or proceeding. The City will indemnify and hold harmless the Trustee and the 2016 Bond Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and will indemnify and hold harmless the 2016 Bond Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation (including pre-litigation activities) to which any of them may become a party by reason of ownership of 2016 Bonds. The City will promptly reimburse any 2016 Bond Owner in the full amount of any attorneys' fees or other expenses which such Owner may incur in litigation or otherwise in order to enforce such party's rights under the Indenture or the 2016 Bonds, provided that such litigation is concluded favorably to such party's contentions therein.

Section 6.13. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed and delivered by the City in connection with the issuance of the 2016 Bonds. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with the foregoing obligations. For purposes of this Section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2016 Bonds (including persons holding 2016 Bonds through nominees, depositories or other intermediaries).

Section 6.14. Additional Contracts and Bonds.

The City may at any time execute any Contract or issue any Bonds, as the case may be, provided that:

- (a) The Net Revenues (which, when calculated for purposes of this subsection, do not include amounts transferred from the Rate Stabilization Fund to the Revenue Fund pursuant to Section 5.09 that are in excess of twenty percent (20%) of Debt Service for such Fiscal Year) for

the most recent audited Fiscal Year preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the City, produce a sum equal to at least one hundred twenty percent (120%) of the Debt Service for such Fiscal Year; and

(b) The Net Revenues (which, when calculated for purposes of this subsection, do not include amounts transferred from the Rate Stabilization Fund to the Revenue Fund pursuant to Section 5.09 that are in excess of twenty percent (20%) of Debt Service for such Fiscal Year) for the most recent audited Fiscal Year preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges for the Water Service approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the City, produce a sum equal to at least one hundred twenty percent (120%) of the Debt Service for such Fiscal Year, plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year, assuming that such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year, plus the Debt Service which would have accrued had such proposed additional Contract been executed or proposed additional Bonds been issued at the beginning of such Fiscal Year.

(c) Notwithstanding the foregoing, Bonds or Contracts may be issued or incurred to refund outstanding Bonds or Contracts if, after giving effect to the application of the proceeds thereof, total Debt Service will not be increased in any Fiscal Year in which Bonds or Contracts (outstanding on the date of issuance or incurrence of such refunding Bonds or Contracts, but excluding such refunding Bonds or Contracts) not being refunded are outstanding.

(d) Nothing contained in this Section limits the issuance of any obligations payable from Net Revenues on a subordinate basis to the Contracts and Bonds.

Section 6.15. Against Sale or Other Disposition of Property. The City will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Revenues for the payment of the principal of and interest on the 2016 Bonds, or which would otherwise impair the operation of the Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold so long as such sale will not impair the ability of the City to pay the principal of and interest on the 2016 Bonds and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing in the Indenture restricts the ability of the City to sell any portion of the Water System so long as such portion is immediately repurchased by the City, and so long as such arrangement cannot by its terms result in the purchaser of such portion of the Water System exercising any remedy which would deprive the City of, or otherwise interfere with, its right to own and operate such portion of the Water System.

Section 6.16. Against Competitive Facilities. To the extent that it can so legally obligate itself, the City covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency,

corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the Water Service area any water system competitive with the Water System.

Section 6.17. Maintenance and Operation of the Water System. The City will maintain and preserve the Water System in good repair and working order at all times, operate the Water System in an efficient and economical manner and pay all Operation and Maintenance Costs as they become due and payable.

Section 6.18. Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created under the Indenture or on any funds in the hands of the City pledged to pay the principal of or interest on the 2016 Bonds or to the Owners prior or superior to the lien under the Indenture.

Section 6.19. Insurance.

(a) The City will procure and maintain, or cause to be procured and maintained, insurance on the Water System with responsible insurers in such amounts and against such risks (including damage to or destruction of the Water System) as are typically covered in connection with facilities similar to the Water System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The City will begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same are completed and the Water System is free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Water System, and/or the cost of the construction of additions, betterments, extensions or improvements to the Water System, then the excess Net Proceeds will be applied in part to the redemption of 2016 Bonds as provided in Section 4.01(c) and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of 2016 Bonds then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the City to retire the entire obligation evidenced by the 2016 Bonds prior to the final due date of the 2016 Bonds, as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the City may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Water System, and/or not to construct other additions, betterments, extensions or improvements to the Water System; and thereupon such Net Proceeds will be applied to the redemption of 2016 Bonds as provided in Section 4.01(c) and to the retirement of such Bonds and Contracts.

(b) The City will procure and maintain such other insurance as it deems advisable or necessary to protect its interests and the interests of the 2016 Bond Owners, which insurance

affords protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water System.

(c) Any insurance required to be maintained by paragraph (a) above and, if the City determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

Section 6.20. Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water System or any part thereof or upon the Revenues when the same become due. The City will duly observe all valid regulations and requirements of any governmental authority relative to the operation of the Water System, or any part thereof, but the City is not required to comply with any regulations or requirements so long as the validity or application thereof is contested in good faith.

Section 6.21. Amount of Rates and Charges.

(a) In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund on the first day of such Fiscal Year is less than the Debt Service on the 2016 Bonds payable in such Fiscal Year, to the fullest extent permitted by law, the City will fix and prescribe, at the commencement of each such Fiscal Year, rates and charges for the Water Service provided by the Water System that are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (which, when calculated for purposes of this subsection, do not include amounts transferred from the Rate Stabilization Fund pursuant to Section 5.09 that are in excess of twenty percent (20%) of Debt Service for such Fiscal Year) equal to one hundred twenty percent (120%) of Debt Service for such Fiscal Year.

(b) In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund on the first day of such Fiscal Year is at least equal to the Debt Service on the 2016 Bonds payable in such Fiscal Year, to the fullest extent permitted by law, the City will fix and prescribe, at the commencement of each such Fiscal Year, rates and charges for the Water Service provided by the Water System that are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Revenues (which, when calculated for purposes of this subsection, do not include amounts transferred from the Rate Stabilization Fund pursuant to Section 5.09) equal to one hundred twenty percent (120%) of Operation and Maintenance Costs for such Fiscal Year.

(c) The City may make, or permit to be made, adjustments from time to time in such rates, fees and charges and may make, or permit to be made, such classification thereof as it deems necessary, but may not reduce or permit to be reduced such rates, fees and charges below those then in effect, unless the Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the foregoing requirements.

Section 6.22. Collection of Rates and Charges. The City will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Section 6.23. Eminent Domain Proceeds. If all or any part of the Water System is taken by eminent domain proceedings, the Net Proceeds thereof will be applied as follows:

(a) If: (1) the City files with the Trustee a certificate showing: (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the City by reason of such eminent domain proceedings; (ii) a general description of the additions, betterments, extensions or improvements to the Water System proposed to be acquired and constructed by the City from such Net Proceeds; and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements; and (2) the City, on the basis of such certificate filed with the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the City to meet its obligations under the Indenture will not be substantially impaired (which determination will be final and conclusive), then the City will promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate, and such Net Proceeds will be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the City for such purpose will be deposited in the Revenue Fund.

(b) If the foregoing conditions are not met, then such Net Proceeds will be applied by the City in part to the redemption of 2016 Bonds as provided in Section 4.01(c) and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of 2016 Bonds then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Section 6.24. Enforcement of Contracts. The City will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with, any contracts previously or later entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the City to pay principal of and interest on the 2016 Bonds.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF 2016 BOND OWNERS

Section 7.01. Events of Default. The following events are Events of Default under the Indenture:

(a) Default by the City in the due and punctual payment of the principal of any 2016 Bonds, the principal of any Bonds or the principal with respect to any Contract, when and as the same become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise.

(b) Default by the City in the due and punctual payment of any installment of interest on any 2016 Bonds, any installment of interest on any Bond or any installment of interest with respect to any Contract, when and as the same become due and payable.

(c) Default by the City in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the 2016 Bonds, or required by any Bond or indenture relating thereto or by any Contract, if such default continues for a period of sixty (60)

days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the City by the Trustee or by the Owners of not less than a majority in aggregate principal amount of 2016 Bonds Outstanding, a majority in principal amount of such Bonds outstanding, or a majority in principal amount outstanding with respect to such Contract, as applicable; provided, however, that if in the reasonable opinion of the City the default stated in the notice can be corrected, but not within such sixty (60) day period, and corrective action is instituted by the City within such sixty (60) day period and diligently pursued in good faith until the default is corrected, such default will not be an Event of Default.

(d) 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.

(e) Payment of the principal of any Bond or with respect to any Contract is accelerated in accordance with its terms.

Section 7.02. Remedies Upon Event of Default. If any Event of Default specified in Section 7.01(d) or (e) occurs and is continuing, the Trustee will, and for any other Event of Default, the Trustee may, and, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, at the direction of the Bond Insurer, and upon being indemnified to its reasonable satisfaction therefor, will, in each case, upon notice in writing to the City and the Bond Insurer, declare the principal of all of the 2016 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Indenture or in the 2016 Bonds contained to the contrary notwithstanding.

Nothing contained in the Indenture permits or requires the Trustee to accelerate payments due under the Indenture if the City is not in default of its obligation thereunder.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due has been obtained or entered, the City or the Bond Insurer deposits with the Trustee a sum sufficient to pay all of the principal of and installments of interest on the 2016 Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective 2016 Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee and the Bond Insurer, or deposits with the applicable trustee with respect to any Contract a sum sufficient to pay all of the principal and installments of interest with respect to such Contract payment of which is overdue, with interest on such overdue principal at the rate borne by such Contract to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Contract, or deposits with the applicable trustee with respect to any Bond a sum sufficient to pay all of the principal of and installments of interest on such Bond payment of which is overdue, with interest on such overdue principal at the rate borne by such Bonds to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Bonds, and any and all other Events of Default known to the Trustee or the applicable trustee with respect to such Contract or Bonds (other than in the payment of principal of and interest on the 2016 Bonds, payment of principal and interest

with respect to such Contract or payment of principal and interest on such Bond, as applicable, due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee and the Bond Insurer, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case the Trustee will, on behalf of the Bond Insurer and the Owners of all of the 2016 Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment will extend to or affect any subsequent Event of Default, or impair or exhaust any right or power consequent thereon.

Section 7.03. Application of Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Revenues held or thereafter received by the Trustee and all amounts in any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than amounts held in the Rebate Fund and the Rate Stabilization Fund) will be applied in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Bond Insurer, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, the Owners of the 2016 Bonds, Contract or Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of Operation and Maintenance Costs; and

(c) To the payment of the principal of and interest then due on the 2016 Bonds (upon presentation of the 2016 Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid), in accordance with the provisions of the Indenture, the payment of the principal and interest then due with respect to such Contract in accordance with the provisions thereof and the payment of the principal of and interest then due on such Bonds in accordance with the provisions thereof and of any indenture related thereto, in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due on the 2016 Bonds, with respect to such Contract or on such Bonds, as applicable, in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any 2016 Bonds, principal with respect to such Contract or principal of any Bonds, as applicable, which have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of eight percent (8%) per annum, and, if the amount available is not sufficient to pay in full all the 2016 Bonds, all amounts due under such Contract or all of the Bonds, as applicable, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Third: If there is any remainder after the foregoing payments, such remainder will be paid to the City.

Section 7.04. Trustee to Represent 2016 Bond Owners. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the 2016 Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2016 Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the 2016 Bonds or the Indenture and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2016 Bond Owners, the Trustee in its discretion may, and upon the written request of the Bond Insurer, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, or the Owners of a majority in aggregate principal amount of the 2016 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will proceed to protect or enforce its rights or the rights of the Bond Insurer and such Owners by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in the Bond Insurer and such Owners under the 2016 Bonds or the Indenture or any law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2016 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2016 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of the Bond Insurer and all of the Owners of such 2016 Bonds, subject to the provisions of the Indenture.

Section 7.05. 2016 Bond Owners' Direction of Proceedings. The Owners of a majority in aggregate principal amount of the 2016 Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction to direct the method of conduct in all remedial proceedings taken by the Trustee under the Indenture, provided that such direction must be in accordance with law and the provisions of the Indenture, and that the Trustee has the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to 2016 Bond Owners not parties to such direction.

Section 7.06. Suit by Owners. No Owner of any 2016 Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture with respect to such 2016 Bonds, unless: (a) such Owners have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than fifty percent (50%) in aggregate principal amount of the 2016 Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of sixty (60) days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee

during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the 2016 Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are, in every case, conditions precedent to the exercise by any Owner of 2016 Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2016 Bonds have any right in any manner whatever by their actions to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2016 Bonds, or to enforce any right under the 2016 Bonds, the Indenture, or applicable law with respect to the 2016 Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding 2016 Bonds, subject to the provisions of the Indenture.

Section 7.07. Absolute Obligation of the City. Nothing in the Indenture or in the 2016 Bonds affects or impairs the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the 2016 Bonds to the respective Owners of the 2016 Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets pledged therefor in the Indenture, or affects or impairs the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2016 Bonds.

Section 7.08. Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the 2016 Bonds in the Indenture is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or later existing at law or in equity or otherwise.

Section 7.09. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2016 Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or be construed to be a waiver of any such Event of Default or an acquiescence therein. No default or Event of Default may be waived without Bond Insurer's express written consent.

Section 7.10. [BOND INSURER PROVISIONS TO COME].

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee.

(a) The Trustee will, prior to an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture, and no implied covenants or duties will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The City may, with the written consent of the Bond Insurer, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and, with the written consent of the Bond Insurer, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2016 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with subsection (e) of this Section or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee. The City will thereafter promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the City and the Bond Insurer and by giving the 2016 Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the City will promptly appoint a successor Trustee acceptable to the Bond Insurer, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any 2016 Bond Owner (on behalf of such Owner and all other 2016 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all of the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the City or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all of the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the City will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the City will mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which is then rating the 2016 Bonds and to the 2016 Bond Owners at the addresses shown on the Registration Books. If the City fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the City.

(e) Any Trustee appointed under the provisions of this Section in succession to the Trustee must be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least Seventy Five Million Dollars (\$75,000,000), and subject to supervision or examination for federal or state authority, or an entity otherwise approved by the Bond Insurer in writing, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such trust company, banking association or bank will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of this subsection (e), the Trustee resign immediately in the manner and with the effect specified in this Section.

Section 8.02. Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated, or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it is a party, or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank is eligible under subsection (e) of Section 8.01, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Section 8.03. Liability of Trustee.

(a) The recitals of facts in the Indenture and in the 2016 Bonds will be taken as statements of the City, and the Trustee does not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or the 2016 Bonds, nor will the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations therein or in the 2016 Bonds assigned to or imposed upon it. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the 2016 Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2016 Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2016 Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2016 Bonds then Outstanding.

(b) The Trustee is not liable for any error of judgment made in good faith by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for in the Indenture) in aggregate principal amount of the 2016 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee is not liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any default or Event of Default under the Indenture or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture unless and until a Responsible Officer of the Trustee has actual knowledge of such event or the Trustee has been notified in writing, in accordance with Section 11.07, of such event by the City or the Owners of not less than fifty percent (50%) of the 2016 Bonds then Outstanding. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the City of any of the terms, conditions, covenants or agreements of the Indenture, any of the documents executed in connection with the 2016 Bonds or the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of any of its rights or powers.

(g) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Owners pursuant to the Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of this Article VIII.

(i) The Trustee has no responsibility or liability with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2016 Bonds.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and is not answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or

supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Water System, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured electronic mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee must have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the City elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee is not liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding the fact that such instructions conflict or are inconsistent with a subsequent written instruction. The City agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(n) The Trustee is not concerned with or accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

(o) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Owners pursuant to the provisions of the Indenture unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(p) The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty, and the Trustee is not answerable for other than its negligence or willful misconduct.

Section 8.04. Right to Rely on Documents. The Trustee will be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the City, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2016 Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2016 Bonds for all purposes and the Trustee will not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof is specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a

Certificate, Request or Requisition of the City, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Section 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture will be retained in the Trustee's possession and will be subject at all reasonable times to the inspection of the City and any 2016 Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Section 8.06. Compensation and Indemnification. The City will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture and all reasonable expenses, charges, legal and consulting fees and other disbursements and those of the Trustee's attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The City will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust therein, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers thereunder. The rights of the Trustee and the obligations of the City under this Section 8.06 will survive removal or resignation of the Trustee or the discharge of the 2016 Bonds and the Indenture.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

Section 9.01. Amendments Permitted.

(a) The Indenture and the rights and obligations of the City, the Owners of the 2016 Bonds and the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the City and the Trustee may enter into when the written consent of the Bond Insurer, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, and the Owners of a majority in aggregate principal amount of all 2016 Bonds then Outstanding, exclusive of 2016 Bonds disqualified as provided in Section 11.09, have been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any 2016 Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Bond Insurer, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, Owner of each 2016 Bond so affected; or (2) reduce the aforesaid percentage of 2016 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the 2016 Bonds of the lien created by the Indenture on such Revenues and

other assets except as permitted in the Indenture, without the consent of the Owners of all of the 2016 Bonds then Outstanding. It is not necessary for the consent of the Bond Insurer, if required, or the 2016 Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof. Promptly after the execution by the City and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency, the Bond Insurer and the Owners of the 2016 Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the City, the Trustee and the Owners of the 2016 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into without the consent of any 2016 Bond Owners or the Bond Insurer, if the Trustee receives an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture do not materially adversely affect the interests of the Owners of the Outstanding 2016 Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2016 Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the City in the Indenture;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute; and

(4) to modify, amend or supplement the Indenture in such manner as to cause interest on the 2016 Bonds to remain excludable from gross income under the Code.

(c) The Trustee may in its discretion, but is not obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture, there will be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2016 Bonds from federal income taxation and from state income taxation.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the

City, the Trustee and all Owners of 2016 Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Section 9.03. Endorsement of 2016 Bonds; Preparation of New 2016 Bonds. 2016 Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Trustee so determines will, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2016 Bonds Outstanding at the time of such execution and presentation of his or her 2016 Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation is made on such 2016 Bonds. If the Supplemental Indenture so provides, new 2016 Bonds so modified as to conform, in the opinion of the City and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the City and authenticated by the Trustee, and upon demand on the Owners of any 2016 Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any 2016 Bond Owner, for 2016 Bonds then Outstanding, upon surrender for cancellation of such 2016 Bonds, in equal aggregate principal amount of the same maturity.

Section 9.04. Amendment of Particular 2016 Bonds. The provisions of this Article do not prevent any 2016 Bond Owner from accepting any amendment as to the particular 2016 Bonds held by such Owner.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. The 2016 Bonds may be paid by the City in any of the following ways, provided that the City also pays or causes to be paid any other sums payable under the Indenture by the City:

- (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the 2016 Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem all 2016 Bonds then Outstanding; or
- (c) by delivering to the Trustee, for cancellation by it, all of the 2016 Bonds then Outstanding.

If the City also pays or causes to be paid all other sums payable under the Indenture by the City, then and in that case, at the election of the City (as evidenced by a Certificate of the City, filed with the Trustee and the Bond Insurer, provided that the Policy is in full force and effect and the Bond Insurer is not in default thereunder, signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding the fact that any 2016 Bonds have not been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture will

cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the City, the Trustee will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of 2016 Bonds not theretofore surrendered for such payment or redemption to the City.

Section 10.02. Discharge of Liability on 2016 Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding 2016 Bonds (whether upon or prior to the maturity or the Redemption Date of such 2016 Bonds), provided that, if such Outstanding 2016 Bonds are to be redeemed prior to maturity, notice of such redemption has been given as provided in Article IV or provisions satisfactory to the Trustee have been made for the giving of such notice, then all liability of the City in respect of such 2016 Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of Section 10.04.

The City may at any time surrender to the Trustee for cancellation by it any 2016 Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such 2016 Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

[BOND INSURER REQUIREMENTS TO COME]

Section 10.03. Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any 2016 Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2016 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2016 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as provided in Article IV or provisions satisfactory to the Trustee have been made for the giving of such notice, the amount to be deposited or held will be the principal amount of such 2016 Bonds and all unpaid interest and premium, if any, thereon to the Redemption Date; or

(b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Independent Certified Public Accountant or Independent Financial Consultant filed with the City and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the Redemption Date (with premium, if any), as the case may be, on the 2016 Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 2016 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in Article IV or provisions satisfactory to the Trustee have been made for the giving of such notice;

provided, in each case, that: (i) the Trustee will be irrevocably instructed (by the terms of the Indenture or by Written Request of the City) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2016 Bonds; and (ii) the City will delivered to the

Trustee an opinion of Bond Counsel addressed to the City and the Trustee to the effect that such 2016 Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above).

Section 10.04. Payment of 2016 Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2016 Bonds and remaining unclaimed for two (2) years after the principal of all of the 2016 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the 2016 Bonds became due and payable, will be repaid to the City free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the City and the Trustee indemnifying the Trustee with respect to claims of Owners of 2016 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee will at the written direction of the City (at the cost of the City) first mail to the Owners of 2016 Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the 2016 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Liability of City Limited to Revenues. Notwithstanding anything in the Indenture or the 2016 Bonds, but subject to the priority of payment with respect to Operation and Maintenance Costs, the City is not required to advance any moneys derived from any source other than the Revenues, the Revenue Fund and other moneys pledged under the Indenture for any of the purposes of the Indenture, whether for the payment of the principal of or interest on the 2016 Bonds or for any other purpose of the Indenture. Nevertheless, the City may, but is not required to, advance for any of the purposes of the Indenture any funds of the City which may be made available to it for such purposes.

The obligation of the City to pay interest and principal on the 2016 Bonds is a special obligation of the City payable solely from the Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof (other than the City) in contravention of any constitutional or statutory debt limitation or restriction.

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

Section 11.03. Limitation of Rights to Parties and 2016 Bond Owners. Nothing in the Indenture or in the 2016 Bonds expressed or implied is intended or will be construed to give to any person other than the City, the Trustee, the Bond Insurer and the Owners of the 2016 Bonds, any

legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the City, the Trustee and the Owners of the 2016 Bonds.

Section 11.04. Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice, and in any such case the giving or receipt of such notice is not a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice is required to be given by mail, such requirement may be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Section 11.05. Destruction of 2016 Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any 2016 Bonds, the Trustee will destroy such 2016 Bonds as may be allowed by law, and deliver a certificate of such destruction to the City.

Section 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2016 Bonds are for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture. The City hereby declares that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase thereof and authorized the issuance of the 2016 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Section 11.07. Notices. Any notice to or demand upon the City, the Trustee or the Bond Insurer will be deemed to have been sufficiently given or served for all purposes by being sent by facsimile, electronic mail, overnight mail or courier, or by being deposited, first class mail, postage prepaid, in a post office letter box, addressed, as the case may be, to the City at City of Ukiah, 300 Seminary Avenue, Ukiah, California 95482, Attention: Finance Director (or such other address as may have been filed in writing by the City with the Trustee), to the Trustee at its Office, or to the Bond Insurer at [____]. Notwithstanding the foregoing provisions of this Section 11.07, the Trustee will not be deemed to have received, and will not be liable for failing to act upon the contents of, any notice unless and until the Trustee actually receives such notice.

Section 11.08. Evidence of Rights of 2016 Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2016 Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 2016 Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 2016 Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the City if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to such notary public or other officer the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The Ownership of 2016 Bonds will be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any 2016 Bond will bind every future Owner of the same 2016 Bond and the Owner of every 2016 Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in accordance therewith or reliance thereon.

Section 11.09. Disqualified 2016 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2016 Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2016 Bonds which are known by the Trustee to be owned or held by or for the account of the City, or by any other obligor on the 2016 Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the 2016 Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2016 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such 2016 Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the 2016 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request, the City will certify to the Trustee those 2016 Bonds that are disqualified pursuant to this Section 11.09 and the Trustee may conclusively rely on such certificate.

Section 11.10. Money Held for Particular 2016 Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2016 Bonds (or portions of 2016 Bonds in the case of registered 2016 Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the 2016 Bonds entitled thereto, subject, however, to the provisions of Section 10.04 but without any liability for interest thereon.

Section 11.11. Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of Section 6.05(a) and for the protection of the security of the 2016 Bonds and the rights of every Owner thereof.

Section 11.12. Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the City will be individually or personally liable for the payment of the principal of or premium or interest on the 2016 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture relieves any

such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

Section 11.13. Execution in Several Counterparts. The Indenture may be executed in any number of counterparts, and each of such counterparts will for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the Trustee will preserve undestroyed, will together constitute but one and the same instrument.

Section 11.14. CUSIP Numbers. Neither the Trustee nor the City is liable for any defect or inaccuracy in the CUSIP number that appears on any 2016 Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the 2016 Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2016 Bond Owners and that neither the City nor the Trustee is liable for any inaccuracies in such numbers.

Section 11.15. Choice of Law. THE INDENTURE WILL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

Section 11.16. Paired Obligation Provider Guidelines. For purposes of Sections 6.14 and 6.21, Paired Obligations must comply with the following conditions:

(a) A Paired Obligation Provider must initially have a long-term rating of “A-” or better by S&P and “A3” or better by Moody’s.

(b) So long as the long-term rating of the Paired Obligation Provider is not reduced below “Baa2” by S&P or “BBB” by Moody’s, the interest rate of such Paired Obligation will be deemed to be equal to the irrevocable fixed interest rate attributable thereto for purposes of Sections 6.14 and 6.21.

In the event that a Paired Obligation Provider does not maintain the Minimum Rating Requirement and the City does not replace such Paired Obligation Provider with another Paired Obligation Provider which maintains the Initial Rating Requirement within ten (10) Business Days of notice that the Paired Obligation Provider has not maintained the Minimum Rating Requirement, interest with respect to such Paired Obligations will be computed for purposes of Sections 6.14 and 6.21 without regard to payments to be received from the Paired Obligation Provider.

Section 11.17. [BOND INSURER PROVISIONS TO COME].

IN WITNESS WHEREOF, the City has caused the Indenture to be signed in its name by its Mayor, and the Trustee, in token of its acceptance of the trusts created hereunder, has caused the Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

CITY OF UKIAH

By: _____
Its: Mayor

WELLS FARGO BANK, NATIONAL ASSOCIATION, as
Trustee

By: _____
Its: Authorized Officer

EXHIBIT A

FORM OF 2016 BOND

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. _____

\$ _____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

CITY OF UKIAH
WATER REVENUE REFUNDING BOND, SERIES 2016

INTEREST RATE	MATURITY DATE	ORIGINAL ISSUE DATE	CUSIP
_____%	____ 1, 20__	March __, 2016	____

REGISTERED OWNER CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

The CITY OF UKIAH, a municipal corporation duly organized and existing under the laws of the State of California (the "City"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless: (i) this Bond is authenticated after the fifteenth day of the calendar month preceding an interest payment date, whether or not such day is a business day, and on or before the following interest payment date, in which event it shall bear interest from such interest payment date; or (ii) this Bond is authenticated on or before ____ 15, 2016, in which event it shall bear interest from the Original Issue Date identified above; provided, however, that if as of the date of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on this Bond), at the Interest Rate per annum specified above, payable on ____ 1, 2016 and each ____ 1 and ____ 1 thereafter, calculated on the basis of a 360 day year composed of twelve 30 day months. Principal hereof and premium, if any, upon early redemption hereof are payable by check of the Trustee upon presentation and surrender hereof at the Office (as defined in the hereinafter described Indenture) of Wells Fargo Bank, National Association, as trustee (the "Trustee"). Interest

hereon is payable by check of the Trustee sent by first class mail on the applicable interest payment date to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each interest payment date (except that in the case of a Registered Owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such Registered Owner's option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Registered Owner prior to the fifteenth (15th) day of the month preceding such interest payment date).

This Bond is not a debt of the State of California, or any of its political subdivisions (other than the City), and neither the State, nor any of its political subdivisions (other than the City), is liable hereon, nor in any event shall this Bond be payable out of any funds or properties of the City other than the Net Revenues (as such term is defined in the Indenture of Trust, dated as of March 1, 2016 (the "Indenture"), by and between the City and the Trustee) and other moneys pledged therefor under the Indenture. The obligation of the City to make payments in accordance with the Indenture is a limited obligation of the City as set forth in the Indenture, and the City shall have no liability or obligation in connection herewith except with respect to such payments to be made pursuant to the Indenture. This Bond does not constitute an indebtedness of the City in contravention of any constitutional or statutory debt limitation or restriction.

This Bond is one of a duly authorized issue of bonds of the City designated as the "City of Ukiah Water Revenue Refunding Bonds, Series 2016" (the "2016 Bonds"), of an aggregate principal amount of _____ Dollars (\$ _____), all of like tenor and date (except for such variation, if any, as may be required to designate varying series, numbers or interest rates) and all issued pursuant to the provisions of Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, and pursuant to the Indenture and the resolution authorizing the issuance of the 2016 Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the City) and all supplements thereto for a description of the terms on which the 2016 Bonds are issued, the provisions with regard to the nature and extent of the Net Revenues, and the rights thereunder of the Owners of the 2016 Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the City hereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees. The 2016 Bonds have been issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof.

The 2016 Bonds have been issued by the City to prepay and defease that certain Installment Sale Agreement, dated as of September 1, 2005, by and between the City and the Association of Bay Area Governments, as more fully described in the Indenture.

This Bond and the interest, premium, if any, hereon and all other 2016 Bonds and the interest and premium, if any, thereon (to the extent set forth in the Indenture) are special obligations of the City, secured by a pledge and lien on the Revenues and any other amounts on deposit in certain funds and accounts created under the Indenture, and payable from the Net Revenues. As and to the extent set forth in the Indenture, all of the Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest and premium (if any) on this Bond.

The Indenture and the rights and obligations of the City and the Owners of the 2016 Bonds and the Trustee may be modified or amended from time to time and at any time with the written

consent of the Owners of a majority in aggregate principal amount of all 2016 Bonds then Outstanding, exclusive of Bonds disqualified as set forth in the Indenture, in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall: (i) extend the fixed maturity of any 2016 Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each 2016 Bond so affected; or (ii) reduce the aforesaid percentage of 2016 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the 2016 Bonds of the lien created by the Indenture on such Revenues and other assets, except as expressly provided in the Indenture, without the consent of the Owners of all of the 2016 Bonds then Outstanding.

The Indenture and the rights and obligations of the City, the Trustee and the Owners of the 2016 Bonds may also be modified or amended for certain purposes described more fully in the Indenture at any time in the manner, to the extent and upon the terms provided in the Indenture by a supplemental indenture, which the City and the Trustee may enter into without the consent of any 2016 Bond Owners, if the Trustee shall receive an opinion of Bond Counsel to the effect that the provisions of such supplemental indenture will not materially adversely affect the interests of the Owners of the Outstanding 2016 Bonds.

The 2016 Bonds with stated maturities on or after ____ 1, 20__, shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date or after ____ 1, 20__, as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice being for the convenience of the Trustee) and by lot within each maturity in integral multiples of \$5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

The 2016 Bonds maturing on ____ 1, 20__ are subject to mandatory sinking fund redemption in part (by lot) on each ____ 1 on and after ____ 1, 20__, in integral multiples of \$5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium, in accordance with the below schedule. On each of the following payment dates, the Trustee shall pay from the Redemption Fund an amount equal to the payment or payments due on such date as set forth below.

***Mandatory Sinking
Fund Redemption***

Date (_____ 1)

Principal Amount

\$

(maturity)

If some but not all of the 2016 Bonds maturing on _____ 1, 20__ have been redeemed pursuant to the optional redemption provisions, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of such 2016 Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the City, which shall notify the Trustee in writing of such determination.

The 2016 Bonds are subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice being for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in, the Indenture at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

As provided in the Indenture, notice of redemption shall be mailed by the Trustee by first class mail at least 20 days but not more than 60 days prior to the date fixed for redemption to the respective Owners of any 2016 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither the failure to receive such notice nor any defect in the notice or the mailing thereof shall affect the validity of the redemption.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all of the 2016 Bonds and the interest accrued thereon may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his or her duly authorized attorney in writing, at the office of the Trustee but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new 2016 Bond or 2016 Bonds of the same series, of authorized denomination or denominations, for the same aggregate principal amount of the same maturity will be issued to the transferee in exchange therefor.

This Bond may be exchanged at said office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same series and same maturity, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture.

The Trustee shall not be required to register the transfer or exchange of this Bond during the period in which the Trustee is selecting 2016 Bonds for redemption or if this Bond has been selected for redemption.

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

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Indenture and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any limit under any laws of the State of California, and is not in excess of the amount of 2016 Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the City has caused this Bond to be executed in its name and on its behalf with the manual or facsimile signature of its Mayor as of this _____ day of March, 2016.

CITY OF UKIAH

By: _____
Its: Mayor

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION
TO APPEAR ON BONDS]

This is one of the Bonds described in the within-mentioned Indenture.

Dated: March __, 2016

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

By: _____
Its: Authorized Signatory

STATEMENT OF INSURANCE
[TO COME FROM BOND INSURER]

[FORM OF ASSIGNMENT]

For value received the undersigned hereby sells, assigns and transfers unto

(Name, Address and Tax Identification or
Social Security Number of Assignee)

the within registered Bond and hereby irrevocably constitute(s) and appoint(s) _____
_____ attorney, to transfer the same on the registration books of the Trustee
with full power of substitution in the premises.

Dated: _____

Note: The signature(s) on this Assignment must
correspond with the name(s) as written on the
face of the within Bond in every particular
without alteration or enlargement or any
change whatsoever.

Signature Guaranteed:

Note: Signature guarantee shall be made by a
guarantor institution participating in
the Securities Transfer Agents
Medallion Program or in such other
guarantee program acceptable to the
Trustee.

\$[_____]
CITY OF UKIAH
WATER REVENUE REFUNDING BONDS,
SERIES 2016

BOND PURCHASE AGREEMENT

_____, 2016

City of Ukiah
300 Seminary Avenue
Ukiah, California 95482

Ladies and Gentlemen:

Raymond James & Associates, Inc. (the “Underwriter”), hereby offers to enter into this Bond Purchase Agreement (this “Bond Purchase Agreement”) with the City of Ukiah, California (the “City”), a municipal corporation and general law city duly organized and existing under the laws of the State of California (the “State”), which upon written acceptance of this offer will be binding upon the City and the Underwriter. This offer is made subject to the City’s written acceptance hereof on or before 11:59 p.m., California time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the City at any time prior to the acceptance hereof by the City.

Capitalized terms used and not defined herein shall have the same meanings as set forth in the Indenture (as defined below).

1. Purchase and Sale of the Bonds

Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the City, and the City hereby agrees to sell and deliver to the Underwriter, all (but not less than all) of the \$[_____] aggregate principal amount of City of Ukiah Water Revenue Refunding Bonds, Series 2016 (the “Bonds”). The Bonds will be issued on the Closing Date (as hereinafter defined), in the principal amount of \$[_____]. The Bonds will bear interest at the rates and will mature on the dates set forth on Schedule I attached hereto. The purchase price for the Bonds shall be \$[_____], being the principal amount of the Bonds, [plus/less [net] original issue premium/discount of \$[_____]], and less an Underwriter’s discount of \$[_____].

The City acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Bond Purchase Agreement is an arm’s-length commercial transaction between the City and the Underwriter; (ii) in connection with such transaction, including the process leading thereto, the Underwriter is acting solely as a principal and not as an agent or a fiduciary of the City; (iii)

the Underwriter has neither assumed an advisory or fiduciary responsibility in favor of the City with respect to the offering of the Bonds or the process leading thereto (whether or not the Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the City on other matters) nor has it assumed any other obligation to the City except the obligations expressly set forth in this Bond Purchase Agreement; (iv) the Underwriter has financial and other interests that differ from those of the City; and (v) the City has consulted with its own legal and financial advisors to the extent it deemed appropriate in connection with the offering of the Bonds.

2. Description and Purpose of the Bonds

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable as provided in the Indenture of Trust, dated as of March 1, 2016 (the “Indenture”) by and between the City and [____], as trustee (the “Trustee”). The Bonds are subject to redemption as provided in the Indenture.

The Bonds are limited obligations of the City payable from and secured by a pledge of the Trust Estate (as defined in the Indenture) on the terms and conditions set forth in the Indenture.

The City is issuing the Bonds to (i) refinance the acquisition and construction of certain water system capital improvements (collectively, the “2005 Project”), more particularly described in the Installment Sale Agreement between the Association of Bay Area Governments (the “Prior Issuer”) and the City dated as of September 1, 2005 (the “2005 Installment Sale Agreement”) through the refunding of a portion of the Association of Bay Area Governments 2005 Water and Wastewater Revenue Bonds, Series A (the “2005 Bonds”); (ii) prepay the City’s obligations under Loan Contract No. E54304, dated September 30, 1988 (the “State Loan”), by and between the City and the State of California Department of Water Resources (“DWR”); to (iii) fund a reserve fund, if required, and to (iv) pay the costs of issuance of the 2016 Bonds..

3. Public Offering

The Underwriter agrees to make a bona fide public offering of all the Bonds initially at the public offering prices (or yields) set forth on Schedule I attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth on Schedule I. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices.

4. Delivery of Official Statement; Continuing Disclosure

(a) Preliminary Official Statement. The City has delivered or caused to be delivered to the Underwriter prior to the execution of this Bond Purchase Agreement, copies of the preliminary official statement with respect to the Bonds, dated [____], 2016 (the “Preliminary Official Statement”). Such Preliminary Official Statement is the official statement deemed final by the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934 (the “Rule”) and approved for distribution by the Underwriter by resolution of the City

Council (the “City Council”) of the City. The City hereby ratifies and confirms its authorization of the use by the Underwriter before the date hereof of the Preliminary Official Statement.

(b) Final Official Statement. Within seven (7) business days from the date hereof, and in any event not later than two business days prior to the Closing Date, the City shall deliver to the Underwriter a final Official Statement, executed on behalf of the City by authorized representatives of the City, which shall include information permitted to be omitted from the Preliminary Official Statement by paragraph (b)(1) of the Rule and with such other amendments or supplements as shall have been approved by the City and the Underwriter (the “Final Official Statement”) and such additional conformed copies thereof as the Underwriter may reasonably request to meet potential customer requests for copies of the Official Statement to comply with the Rule and rules of the Municipal Securities Rulemaking Board (the “MSRB”). It is acknowledged by the City that the Underwriter may deliver the Preliminary Official Statement and a Final Official Statement electronically over the internet and in printed paper form. For purposes of this Bond Purchase Agreement, the printed paper form of the Preliminary Official Statement and the Official Statement are deemed controlling. The Underwriter agrees to file a copy of the Official Statement, including any supplements prepared by the City, with the MSRB on its Electronic Municipal Markets Access (“EMMA”) system. The Official Statement shall be in substantially the same form as the Preliminary Official Statement and, other than information previously permitted to have been omitted by the Rule, the City shall only make such other additions, deletions, revisions and recent developments in the Official Statement as shall be approved by the Underwriter. The Underwriter hereby agrees to cooperate and assist in the preparation of the Official Statement. The City hereby agrees to deliver to the Underwriter an electronic copy of the Official Statement in a form that permits the Underwriter to satisfy its obligations under the rules and regulations of the MSRB and the U.S. Securities and Exchange Commission (“SEC”). The City hereby authorizes the Underwriter to use the Official Statement and the information contained therein in connection with the offering and sale of the Bonds. The Preliminary Official Statement and the Final Official Statement, including the cover pages, the appendices thereto and all information incorporated therein by reference are hereinafter referred collectively to as the “Official Statement.”

(c) Continuing Disclosure Certificate. To enable the Underwriter to comply with the Rule, the City will execute a Continuing Disclosure Certificate concurrently with issuance of the Bonds substantially in the form attached as Appendix E to the Official Statement (the “Continuing Disclosure Certificate”).

5. Closing

At 8:30 a.m. California time on [_____], 2016, or such other time as shall be agreed upon by the Underwriter and the City (the “Closing Date”), the City will deliver or cause to be delivered to the Underwriter at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation, bond counsel to the City (“Bond Counsel”) in Newport Beach, California (or such other location as may be designated by the Underwriter and approved by the City) the closing documents hereinafter mentioned and, in New York, New York through the facilities of The Depository Trust Company (or such other location as may be designated by the Underwriter and approved by the City), the Bonds in the form of registered book-entry bonds evidenced by one certificate for each maturity, interest rate and series of Bonds (which may be

typewritten) in denominations of \$5,000 or any multiple thereof, duly executed by the City and authenticated by the Trustee, and subject to the terms and conditions hereof the Underwriter will accept delivery of the Bonds in book-entry form, and the Underwriter will pay the purchase price of the Bonds set forth in Section 1 by Federal Funds wire (such delivery and payment being herein referred to as "Closing").

6. Representations, Warranties and Agreements of the City

The City represents, warrants and covenants with the Underwriter that:

(a) the City is a a municipal corporation and general law city duly organized and existing under the laws of the State of California, with full legal right, power and authority to issue, sell and deliver the Bonds to the Underwriter pursuant to the Indenture, and execute, deliver and perform its obligations, as the case may be, under this Bond Purchase Agreement, the Escrow Agreement (2005 Installment Sale Agreement) dated as of March 1, 2016 (the "Escrow Agreement"), by and between the City and Wells Fargo Bank, National Association (the "Escrow Agent"), as escrow agent, the Continuing Disclosure Certificate, the Bonds and the Indenture (collectively, the "Legal Documents") and to carry out and consummate all transactions contemplated by each of the aforesaid documents and the Official Statement, and compliance with the provisions of the Legal Documents will not materially conflict with or constitute a breach of or default under any applicable constitutional provision, law, administrative regulation, court order or consent decree or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the City is a party or it or any of its assets may be otherwise subject;

(b) the resolution adopted by the City on [_____] , 2016 approving and authorizing the execution and delivery by the City of the Legal Documents and the preparation and distribution of the Preliminary Official Statement and the Official Statement (the "Resolution") was duly adopted at a meeting of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed;

(c) when delivered by the City and paid for by the Underwriter in accordance with the provisions of this Bond Purchase Agreement, the Bonds will have been duly authorized, executed and delivered and will constitute the valid and binding limited obligations of the City in conformity with, and entitled to the benefit and security of, the Indenture;

(d) the City will deliver the duly executed Indenture on the Closing Date, has duly authorized and approved the execution and delivery of the Legal Documents and when executed and delivered, the Legal Documents, assuming due authorization, execution and delivery by the other respective parties thereto, as applicable, will constitute the legally valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally;

(e) at the date hereof and as of the Closing Date, except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, the City will be in compliance with

the covenants and agreements contained in the Legal Documents, and no event of default and no event has occurred and is continuing which, with the passage of time or giving of notice, or both, would constitute an event of default thereunder shall have occurred and be continuing;

(f) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the due performance by the City of its obligations under the Legal Documents have been duly obtained or made, and are, and will be as of the Closing Date, in full force and effect;

(g) the City will comply with the requirements of the Tax Certificate executed by the City in connection with the delivery of the Bonds;

(h) any certificate signed by any officer of the City and delivered to the Underwriter pursuant to the Legal Documents or any document contemplated hereby or thereby shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein and that such officer shall have been duly authorized to execute the same;

(i) to the best knowledge of the City, there is no public vote or referendum pending or proposed, the results of which could materially adversely affect the transactions contemplated by the Legal Documents or the Official Statement or the validity or enforceability of the Bonds;

(j) the Indenture creates a valid pledge of and grant of a first, direct and exclusive charge and lien on the Revenues purported to be pledged thereby, subject to no prior pledges, liens or security interests;

(k) the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing will be, true and correct in all material respects, and the Official Statement contains and up to and including the Closing will contain no misstatement of any material fact and does not, and up to and including the Closing will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading;

(l) the City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds;

(m) as of the time of acceptance hereof and as of the time of the Closing, the City is not and will not be in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or it or any of its assets is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach or default would materially adversely affect the security of the Bonds or the City's performance under the Legal Documents; and, as of such times, except as disclosed in the Preliminary Official

Statement and the Official Statement, the authorization, execution and delivery of the Legal Documents and the Bonds and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Bonds and the Legal Documents;

(n) as of the time of acceptance hereof and the Closing, except as disclosed in the Preliminary Official Statement and the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or to the best of the City's knowledge after reasonable investigation, threatened (i) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Bonds, the Legal Documents or the consummation of the transactions contemplated thereby or hereby, or contesting the exclusion of the interest on the Bonds from gross income for Federal income tax purposes or contesting the powers of the City or its authority to issue the Bonds; (iii) which may result in any material adverse change relating to the City; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence;

(o) for purposes of the Rule, the City has heretofore deemed final the Preliminary Official Statement prior to its use and distribution by the Underwriter, except for the information specifically permitted to be omitted by paragraph (b)(1) of the Rule;

(p) [except as otherwise disclosed in the Preliminary Official Statement and the Official Statement,] the City has not previously failed to comply with any continuing disclosure obligation undertaken pursuant to the Rule; and

(q) except for information which is permitted to be omitted pursuant to the Rule, the Preliminary Official Statement is, as of its date and as of the date hereof (excluding therefrom the information relating to DTC and its book-entry only system and under the caption "UNDERWRITING," as to which no representations or warranties are made) was and is true and correct in all material respects and did not and does not contain any untrue or misleading statement of a material fact or omitted or omits to state any material fact necessary to make the

statements therein, in the light of the circumstances under which they were made, not misleading.

All representations, warranties and agreements of the City shall remain operative and in full force and effect, regardless of any investigations made by or on the Underwriter' behalf, and shall survive the delivery of the Bonds.

7. Conditions to the Obligations of the Underwriter

The Underwriter hereby enters into this Bond Purchase Agreement in reliance upon the representations and warranties of the City contained herein and the representations and warranties to be contained in the documents and instruments to be delivered on the Closing Date and upon the performance by the City and the Trustee of their respective obligations both on and as of the date hereof. Accordingly, the Underwriter's obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy of the representations and warranties of the City contained herein as of the date hereof and as of the Closing Date, to the accuracy of the statements of the officers and other officials of the City and the Trustee made in any certificate or document furnished pursuant to the provisions hereof, to the performance by the City and the Trustee of their respective obligations to be performed hereunder and under the Legal Documents at or prior to the date hereof and at or prior to the Closing Date, and also shall be subject to the following additional conditions:

(a) On the Closing Date, the Legal Documents shall have been duly authorized, executed and delivered by the City, all in substantially the forms heretofore submitted to the Underwriter, with only such changes as shall have been agreed to in writing by the Underwriter, and shall be in full force and effect; and there shall be in full force and effect such resolutions of the City Council of the City as, in the opinion of the Bond Counsel, shall be necessary or appropriate in connection with the transactions contemplated hereby;

(b) On the Closing Date, all necessary action of the City relating to the issuance and sale of the Bonds will have been taken and will be in full force and effect and will not have been amended, modified or supplemented;

(c) On or prior to the Closing Date, the Underwriter shall have received the following documents, in each case satisfactory in form and substance to the Underwriter:

(i) one copy of the Bond Purchase Agreement and the Legal Documents, each duly executed and delivered by the respective parties thereto;

(ii) the Official Statement, executed on behalf of the City by an authorized representative of the City;

(iii) the approving opinion, dated the date hereof and addressed to the City, of Bond Counsel in substantially the form of Appendix C to the Official Statement, and a letter of such counsel, dated the Closing Date, and addressed to the Underwriter to the effect that such opinion may be relied upon by the Underwriter to the same extent as if such opinion were addressed to them;

(iv) a supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing substantially to the following effect:

- (A) the City has duly and validly executed the Bond Purchase Agreement, and the Bond Purchase Agreement constitutes the legal, valid and binding agreement of the City, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases;
- (B) the statements contained in the Preliminary Official Statement and the Official Statement on the cover page and under the captions "[THE 2016 BONDS (other than information relating to DTC and its book-entry only system, as to which no opinion need be expressed)," "SECURITY FOR THE 2016 BONDS," "TAX MATTERS,]" and in Appendices [B and C] thereto, insofar as such statements expressly summarize certain provisions of the Bonds, the Indenture and Bond Counsel's final approving opinion relating to the Bonds, are accurate in all material respects; and
- (C) the Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(v) a letter of Stradling Yocca Carlson & Rauth, a Professional Corporation, disclosure counsel to the City ("Disclosure Counsel"), dated the date of the Closing, addressed to the City and the Underwriter substantially to the following effect: On the basis of the information made available to such firm in the course of its participation in the preparation of the Preliminary Official Statement and the Official Statement (but without having undertaken to determine or verify independently, or assuming any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement and the Official Statement), no facts have come to the attention of the personnel in such firm directly involved in rendering legal advice and assistance to the City as Disclosure Counsel, including in connection with the preparation of the Preliminary Official Statement and the Official Statement, which cause such firm to believe that the Preliminary Official Statement, as of its date or as of the date hereof, or the Official Statement as of its date and the Closing Date (excluding therefrom financial, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; information relating to the Depository Trust Company and the book-entry only system; [and information [contained under the subheading "THE BONDS – Reserve Surety Policy"] relating to the Surety Policy]; as to all of which such firm expresses no view) contains any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(vi) an opinion of Nixon Peabody LLP, counsel to the Underwriter, dated the Closing Date, and addressed to the Underwriter, in form and substance acceptable to the Underwriter;

(vii) the opinion of the City Attorney to the City dated the Closing Date and addressed to the Underwriter, to the effect that: (A) the City is a municipal corporation and general law city duly organized and existing under the laws of the State of California; (B) the Resolution was duly adopted at a meeting of the City Council that was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed; (C) other than as otherwise disclosed in the Preliminary Official Statement and the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel after reasonable investigation, threatened against or affecting the City, to restrain or enjoin the execution, delivery or sale of the Bonds or the collection or payment of Revenues that are the source of security for the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds or the Legal Documents, or in any way contesting or affecting the existence of the City or the title of any official of the City to such person's office, or contesting the power of the City or its authority with respect to the Bonds or the Legal Documents or contesting the exclusion of interest on the Bonds from gross income for Federal income tax purposes or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (D) the execution and delivery of the Legal Documents, the adoption of the Resolution, and compliance by the City with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach or default under any agreement or other instrument to which the City is a party or by which it is bound or by any existing law, regulation, court order or consent decree to which the City or any of its assets is subject; (E) the Legal Documents have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the limitations on legal remedies against public agencies in the State of California and the application of equitable principles if equitable remedies are sought; and (F) no authorization, approval, consent, or other order of the United States of America, the State of California, or any other governmental authority or agency within the State of California having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the Legal Documents or for the adoption of the Resolution which has not been obtained;

(viii) a certificate of a duly authorized official of the City, dated the Closing Date, in form and substance satisfactory to the Underwriter, to the effect that (A) the

City's representations and warranties contained in the Legal Documents and the Bond Purchase Agreement are true and correct on and as of the Closing Date with the same effect as if made on the Closing Date; (B) the Legal Documents have been executed and are in full force and effect; (C) the City has complied or is then in compliance with all agreements and has satisfied all conditions on its part to be observed or satisfied under each Legal Document at or before the Closing; and (D) no event has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Official Statement, as then supplemented or amended or is not reflected in the Official Statement but should be reflected therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect;

(ix) a certificate of a duly authorized official of the Trustee, dated the Closing Date, to the effect that: (A) the Trustee is a national banking association organized and existing under and by virtue of the laws of the United States, having the full power and being qualified to enter into and perform its duties under the Indenture and to authenticate and deliver the Bonds to the Underwriter; (B) the Trustee is duly authorized to enter into the Indenture and to authenticate and deliver the Bonds to the Underwriter pursuant to the Indenture; (C) when delivered to and paid for by the Underwriter at the Closing, the Bonds will have been duly authenticated and delivered by the Trustee; (D) the execution and delivery of the Indenture and compliance with the provisions on the Trustee's part contained therein, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, note, resolution, agreement or other instrument to which the Trustee is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or blue sky laws or regulations), which conflict, breach or default would materially impair the ability of the Trustee to perform its obligations under the Indenture, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets held by the Trustee pursuant to the lien created by the Indenture under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Indenture; and (E) to the best of the knowledge of the Trustee, it has not been served with any action, suit, proceeding, inquiry or investigation in law or in equity, before or by any court, governmental agency, public board or body, nor is any such action or other proceeding threatened against the Trustee, affecting the existence of the Trustee, or the titles of its officers to their respective offices or seeking to prohibit, restrain, or enjoining the execution and delivery of the Bonds or the collection of revenues to be applied to pay the principal, premium, if any, and interest with respect to the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Indenture, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing to which it is a party, wherein an unfavorable decision, ruling or funding would materially adversely affect the validity or enforceability of the Indenture or the power and authority of the Trustee to enter into and perform its duties under the Indenture and to authenticate and deliver the Bonds to or upon the order of the Underwriter;

(x) the opinion, dated the Closing Date and addressed to the Underwriter and the City, of Counsel to the Trustee, to the effect that: (A) the Trustee has been duly organized as a national banking association under the laws of the United States with trust powers, having full power and authority to enter into and to perform its duties as Trustee under the Indenture; (B) the Trustee has duly authorized, executed and delivered the Indenture, and by all proper corporate action has authorized the acceptance of the trusts of the Indenture; (C) the Indenture constitutes the legally valid and binding agreement of the Trustee, enforceable against the Trustee in accordance with its terms, and (D) the Bonds have been validly authenticated and delivered by the Trustee;

(xi) a certificate of a duly authorized official of the Escrow Agent, dated the Closing Date, to the effect that: (A) the Escrow Agent is a national banking association organized and existing under and by virtue of the laws of the United States, having the full power and being qualified to enter into and perform its duties under the Escrow Agreement and to authenticate and deliver the Bonds to the Underwriter; (B) the Escrow Agent is duly authorized to enter into the Escrow Agreement; (C)) the execution and delivery of the Escrow Agreement and compliance with the provisions on the Escrow Agent's part contained therein, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, note, resolution, agreement or other instrument to which the Escrow Agent is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or blue sky laws or regulations), which conflict, breach or default would materially impair the ability of the Escrow Agent to perform its obligations under the Escrow Agreement, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets held by the Escrow Agent under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Escrow Agreement; and (E) to the best of the knowledge of the Escrow Agent, it has not been served with any action, suit, proceeding, inquiry or investigation in law or in equity, before or by any court, governmental agency, public board or body, nor is any such action or other proceeding threatened against the Escrow Agent, affecting the existence of the Escrow Agent, or the titles of its officers to their respective offices or seeking to prohibit, restrain, or in any way contesting or affecting the validity or enforceability of the Escrow Agreement, or contesting the powers of the Escrow Agent or its authority to enter into, adopt or perform its obligations under any of the foregoing to which it is a party, wherein an unfavorable decision, ruling or funding would materially adversely affect the validity or enforceability of the Escrow Agreement or the power and authority of the Escrow Agent to enter into and perform its duties under the Escrow Agreement;

(xii) the opinion, dated the Closing Date and addressed to the Underwriter and the City, of Counsel to the Escrow Agent, to the effect that: (A) the Escrow Agent has been duly organized as a national banking association under the laws of the United States with trust powers, having full power and authority to enter into and to perform its duties as Escrow Agent under the Escrow Agreement; (B) the Escrow Agent has duly authorized, executed and delivered the Escrow Agreement, and by all proper corporate

action has authorized the acceptance of the Escrow Agreement; and (C) the Escrow Agreement constitutes the legally valid and binding agreement of the Escrow Agent, enforceable against the Escrow Agent in accordance with its terms;

(xiii) one certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Indenture;

(xiv) one copy of the Resolution, together with a certificate of the City Clerk, dated as of the Closing Date, to the effect that such resolution is a true and complete copy of the Resolution;

(xv) a Tax Certificate of the City in form and substance acceptable to Bond Counsel;

(xvi) evidence that the federal tax information form 8038-G has been prepared for filing;

(xvii) a copy of the Notice of Proposed Sale and Report of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 8855(g) of the California Government Code;

(xviii) a copy of the District's executed Blanket Letter of Representation to The Depository Trust Company;

(xix) [a certified copy of the municipal bond reserve surety policy issued by _____, and any other documents executed in connection therewith;] and

(xx) evidence that the ratings on the Bonds as set forth in the Official Statement are in full force and effect as of the Closing Date.

(xxi) such additional legal opinions, certificates, instruments or evidences thereof and other documents as the Counsel to the Underwriter or Bond Counsel may request to evidence the due authorization, execution and delivery of the Bonds and the conformity of the Bonds and the Legal Documents with the terms of the Bonds and the descriptions thereof in the Official Statement.

(d) the Underwriter shall have the right to terminate this Bond Purchase Agreement, without liability therefor, by notification to the City if at any time at or prior to the Closing:

(i) any event shall occur or facts are discovered which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(ii) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially and adversely affected by disruptive events, occurrences or conditions in the securities or debt markets, including but not limited to,

an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Bond Purchase Agreement in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any Federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the City, or the interest on bonds or notes or obligations of the general character of the Bonds; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(iv) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Preliminary Official Statement or the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) there shall have occurred any outbreak or escalation of hostilities or terrorist activities or other local, national or international calamity or crisis, or a default with respect to the debt obligations of, or the institution of proceedings under the federal bankruptcy laws by or against, any state of the United States or agency thereof, or any city in the United States having a population of over one million, the effect of which on the financial markets of the United States will be such as in the Underwriter's judgment, makes it impracticable for the Underwriter to market the Bonds or enforce contracts for the sale of the Bonds; or

(vi) there shall have occurred or any notice shall have been given of any intended downgrading, suspension, withdrawal or negative change in credit watch status by any national rating service to any of the City's obligations; or

(vii) the commencement of any action, suit or proceeding described in Paragraph 6(n) hereof which, in the judgment of the Underwriter, materially adversely affects the market price of the Bonds; or

(viii) the declaration of a general banking moratorium by federal, New York or California authorities, the general suspension of trading on any national securities exchange or a material disruption in securities settlement, payment or clearance services, which event, in the judgment of the Underwriter, would materially adversely affect the market price of the Bonds; or

(ix) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to obligations of the general character of the Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to net capital requirements of, the Underwriter, which, in the judgment of the Underwriter, would materially adversely affect the market price of the Bonds; or

(x) there shall have been any materially adverse change in the affairs of the City which in the Underwriter's judgment materially adversely affects the ability of the Underwriter to market the Bonds.

If the City shall be unable to satisfy the conditions contained in this Bond Purchase Agreement, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriter nor the City shall be under further obligation hereunder, except as further set forth in Section 8 and Section 9 hereof.

8. Expenses

The Underwriter shall be under no obligation to pay, and the City shall pay or cause to be paid the expenses incident to the performance of the obligations of the City hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Legal Documents and the cost of preparing, printing, issuing and delivering the definitive Bonds, (b) the fees and disbursements of any counsel, financial advisors, accountants, verification agents or other experts or consultants retained by the City, (c) the fees and disbursements of Bond Counsel, (d) the fees and disbursements of Disclosure Counsel, (e) the fees and disbursements of the Trustee, and (f) the cost of preparation and printing of the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement and any supplements and amendments thereto, including the requisite number of copies thereof for distribution by the Underwriter. The City and the Underwriter intend that the City will pay all expenses of the City's employees that are incidental to implementing this Bond Purchase

Agreement, including, but not limited to, meals, transportation, and lodging, of those employees, and the City shall reimburse the Underwriter if the Underwriter pays for any of such expenses on behalf of the City.

All out-of-pocket expenses of the Underwriter, including the California Debt and Investment Advisory Commission fee, fees of Underwriter' counsel, and other expenses (except as provided above), shall be paid by the Underwriter from the Underwriter's discount set forth in Section 1.

9. Covenants of the City

The City covenants with the Underwriter that:

(a) If between the date hereof and the date which is not less than 25 days after the End of the Underwriting Period for the Bonds (as defined below), an event occurs, or facts or conditions become known of which the City has knowledge which in the opinion of counsel to the Underwriter or counsel to the City, might or would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was made, not misleading, the City will notify the Underwriter, and, if in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will forthwith prepare and furnish to the Underwriter (at the expense of the City) a reasonable number of copies of an amendment of or supplement to the Official Statement (in the form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to prospective purchasers, not misleading. If such notification shall be after the Closing, the City shall forthwith provide to the Underwriter such certificates as the Underwriter may deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request;

(b) If the information contained in the Official Statement is amended or supplemented pursuant to subparagraph (a) of this Section 9, at the time of such supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Bonds, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein), excluding statements and information under the caption "UNDERWRITING" and information as to bond prices on the inside front cover of the Official Statement, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was made, not misleading;

(c) As used herein and for the purposes of the foregoing, the term “End of Underwriting Period” for the Bonds shall mean the earlier of (i) the Closing Date unless the City shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date or (ii) the date on which the End of the Underwriting Period for the Bonds has occurred under the Rule, provided, however, that the City may treat as the End of the Underwriting Period for the Bonds the date specified as such in a notice from the Underwriter stating the date which is the End of the Underwriting Period;

(d) The City will advise the Underwriter immediately of receipt by the City of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose;

(e) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; provided, however, that the City shall not be required to register as a dealer or broker or foreign corporation in any such state or jurisdiction or consent to service of process therein; and

(f) The City will perform all actions as may be requested by the Underwriter (including delivery of an appropriate certificate with respect to the Preliminary Official Statement) in order for the Underwriter to comply with the applicable provisions of the Rule.

(g) Between the date hereof and the Closing Date, without the prior written consent of the Underwriter, the City will not have issued any bonds, notes, or other obligations for borrowed money, in each case payable from Revenues.

10. Notices

Any notice or other communication to be given to the City under this Bond Purchase Agreement may be given by delivering the same in writing at the City’s address set forth above and any such notice or other communication to be given to the Underwriter shall be delivered to the following address:

Raymond James & Associates, Inc.
One Embarcadero, Suite 650
San Francisco, CA 94111
Attention: Wing-See L. Fox
Telephone: (415) 616-8939
Facsimile: (415) 616-8070

11. Parties in Interest

This Bond Purchase Agreement is made solely for the benefit of the City and the Underwriter and no other person shall acquire or have any right hereunder or by virtue hereof. All the representations and warranties of the parties hereto contained in this Bond Purchase Agreement shall remain operative and in full force and effect regardless of any investigation

made by or on behalf of the Underwriter or the City until the earlier of (a) delivery of and payment for the Bonds hereunder and (b) any termination of this Bond Purchase Agreement.

12. Counterparts

This Bond Purchase Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which shall constitute but one and the same instrument.

13. Effectiveness

This Bond Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the duly authorized officers of the City and shall be valid and enforceable as of the time of such acceptance.

14. Choice of Law

The validity, interpretation and performance of this Bond Purchase Agreement shall be governed by the laws of the State of California, without regard to conflicts of law.

15. Severability

In the event any provision of this Bond Purchase Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

16. Entire Agreement

The Bond Purchase Agreement, when accepted by the City in writing as heretofore specified, shall constitute the entire agreement among the City and the Underwriter.

17. Headings

The headings of the sections of this Bond Purchase Agreement are inserted for convenience only and shall not be deemed to be part hereof.

18. No Assignment

The rights and obligations created by this Bond Purchase Agreement shall not be subject to assignment by the Underwriter or the City without the prior written consent of the other parties hereto.

[The remainder of this page intentionally left blank.]

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

RAYMOND JAMES & ASSOCIATES, INC.

By: _____
Vice President

Accepted at _____ as of the date hereof:

CITY OF UKIAH

By: _____
Name:
Title:

SCHEDULE I

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	Price
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* Term Bond

C Priced to call date of _____ 1, 20__.

ESCROW AGREEMENT (2005 INSTALLMENT SALE AGREEMENT)

By and Between

CITY OF UKIAH

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Escrow Agent**

Dated as of March 1, 2016

Relating to

**INSTALLMENT SALE AGREEMENT, DATED AS OF SEPTEMBER 1, 2005, BY AND
BETWEEN THE CITY OF UKIAH AND THE ASSOCIATION OF BAY AREA
GOVERNMENTS**

ESCROW AGREEMENT (2005 INSTALLMENT SALE AGREEMENT)

THIS ESCROW AGREEMENT (2005 INSTALLMENT SALE AGREEMENT), dated as of March 1, 2016 (the "Escrow Agreement"), by and between the City of Ukiah (the "City") and Wells Fargo Bank, National Association, as Escrow Agent (the "Escrow Agent") and as Prior Trustee (as such term is defined below), is entered into in accordance with a resolution of the City Council of the City adopted on February 3, 2016 and an Indenture of Trust, dated as of March 1, 2016 (the "Indenture"), by and between the City and Wells Fargo Bank, National Association, as trustee (the "Trustee"), to prepay all amounts due under the Installment Sale Agreement, dated as of September 1, 2005 (the "2005 Installment Sale Agreement"), by and between the Association of Bay Area Governments (the "Prior Issuer") and the City. The payments under the 2005 Installment Sale Agreement secure a portion of the Association of Bay Area Governments 2005 Water and Wastewater Revenue Bonds, Series A (the "2005 Bonds"), which were issued pursuant to an Indenture of Trust, dated as of September 1, 2005 (the "Prior Indenture"), by and between the Prior Issuer and Wells Fargo Bank, National Association, as trustee (the "Prior Trustee").

RECITALS

A. The 2005 Installment Sale Agreement was delivered in the aggregate principal amount of \$14,355,000, of which \$11,485,000 is currently outstanding.

B. The City has determined to issue its Water Revenue Refunding Bonds, Series 2016A in the aggregate principal amount of \$_____ (the "2016A Bonds"), a portion of the proceeds of which will be used to optionally prepay all amounts due under the 2005 Installment Sale Agreement on March 1, 2016 (the "Prepayment Date") at a price equal to 100% of the outstanding aggregate principal amount thereof, together with interest accrued with respect thereto through the Prepayment Date (the "Prepayment Price").

C. By irrevocably depositing with the Escrow Agent moneys (as permitted by, in the manner prescribed by, and all in accordance with the 2005 Installment Sale Agreement), which moneys will be used to purchase securities as described in Schedule A (the "Federal Securities"), which Federal Securities satisfy the criteria for "Permitted Investments" set forth in Section 9.03 of the Prior Indenture, provided that the principal of and the interest on the Federal Securities when paid will provide money which[, together with the moneys deposited with the Escrow Agent at the same time pursuant to this Escrow Agreement,] will be fully sufficient to pay and discharge the 2005 Installment Sale Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements in this Escrow Agreement, the City and the Escrow Agent agree as follows:

SECTION 1. Deposit of Moneys. The City hereby deposits with the Escrow Agent \$_____, comprised of a portion of the net sale proceeds of the 2016A Bonds[, and instructs the Prior Trustee to transfer to the Escrow Agent \$_____, consisting of moneys held in the funds and accounts established under the Prior Indenture with respect to the 2005 Installment Sale Agreement,] to be held in irrevocable escrow by the Escrow Agent separate and apart from all other securities, investments or moneys on deposit with the Escrow Agent, in a fund hereby created and established and to be known as the "Escrow Fund," and to be applied solely as provided in this Escrow

Agreement. The City represents that such moneys are at least equal to an amount sufficient: (a) to purchase the Federal Securities listed in Schedule A; and (b) to hold \$_____ uninvested as cash.

SECTION 2. Investment of Moneys. The Escrow Agent acknowledges receipt of the moneys described in Section 1 and agrees immediately: (a) to invest such moneys in the Federal Securities listed in Schedule A; and (b) to deposit such Federal Securities in the Escrow Fund. The Escrow Agent shall be entitled to rely upon the conclusion of _____ (the "Verification Agent"), that the Federal Securities listed in Schedule A mature and bear interest payable in such amounts and at such times as, together with cash on deposit in the Escrow Fund, will be sufficient to pay when due all regularly scheduled payments of interest and principal with respect to the 2005 Installment Sale Agreement on and prior to the Prepayment Date and to pay on the Prepayment Date the Prepayment Price of the 2005 Installment Sale Agreement.

SECTION 3. Investment of Any Remaining Moneys. At the written direction of the City, the Escrow Agent shall reinvest any other amount of principal and interest, or any portion thereof, received from the Federal Securities prior to the date on which such payment is required for the purposes set forth herein, in noncallable Federal Securities maturing not later than the date on which such payment or portion thereof is required for the purposes set forth in Section 5, at the written direction of the City, as verified in a report (prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of political subdivisions) to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay when due all regularly scheduled payments of interest and principal with respect to the 2005 Installment Sale Agreement on and prior to the Prepayment Date, and to pay on the Prepayment Date the Prepayment Price of the 2005 Installment Sale Agreement, and provided that the City has obtained and delivered to the Escrow Agent an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Installment Payments (as such term is defined in the 2005 Installment Sale Agreement) payable by the City or interest on the 2016A Bonds. Any interest income resulting from investment or reinvestment of moneys pursuant to this Section 3 which is not required for the purposes set forth in Section 5, as verified in the letter of the Verification Agent originally obtained by the City with respect to the prepayment of all amounts payable under the 2005 Installment Sale Agreement or in any other report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of tax-exempt obligations of political subdivisions, shall be paid to the City promptly upon the receipt of such interest income by the Escrow Agent. The determination of the City as to whether an accountant qualifies under this Escrow Agreement shall be conclusive.

SECTION 4. Substitution of Securities. Upon the written request of the City, and subject to the conditions and limitations herein set forth and applicable governmental rules and regulations, the Escrow Agent shall sell, redeem or otherwise dispose of the Federal Securities, provided that there are substituted therefor from the proceeds of the Federal Securities other Federal Securities, but only after the City has obtained and delivered to the Escrow Agent: (a) an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, to the effect that the substitution of securities is permitted under the 2005 Installment Sale Agreement and the Prior Indenture and that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Installment Payments payable by the City or interest with respect to the 2016A Bonds; and (b) a report by a firm of independent certified public accountants to

the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay when due all regularly scheduled payments of interest and principal with respect to the 2005 Installment Sale Agreement on and prior to the Prepayment Date, and to pay on the Prepayment Date the Prepayment Price of the 2005 Installment Sale Agreement. The Escrow Agent shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Escrow Agreement and in full compliance with the provisions hereof.

SECTION 5. Refunding of the 2005 Installment Sale Agreement.

(a) Payment. From the maturing principal of the Federal Securities, the investment income and other earnings thereon and other moneys on deposit in the Escrow Fund, the Escrow Agent shall pay the Prepayment Price of the 2005 Installment Sale Agreement on the Prepayment Date, all as set forth in Exhibit 1 hereto.

(b) Required Notices. The Escrow Agent acknowledges that the prepayment of the 2005 Installment Sale Agreement will cause a corresponding redemption and defeasance of that portion of the 2005 Bonds that is secured by payments under the 2005 Installment Sale Agreement.

The Escrow Agent further acknowledges that, upon the funding of the Escrow Fund as provided herein and the receipt of the Irrevocable Instructions and Request to Prior Trustee and Escrow Agent attached hereto as Exhibit 2: (1) the Escrow Agent is in receipt of the items that constitute all of the conditions precedent to the prepayment of the 2005 Installment Sale Agreement and the corresponding redemption and defeasance of that portion of the 2005 Bonds that is secured by payments under the 2005 Installment Sale Agreement; (2) the 2005 Installment Sale Agreement shall be prepaid in accordance with its terms; and (3) that portion of the 2005 Bonds that is secured by payments under the 2005 Installment Sale Agreement shall be paid in accordance with the Prior Indenture and shall cease to be entitled to any lien, benefit or security under the Prior Indenture.

By executing the Irrevocable Instructions and Request to Prior Trustee and Escrow Agent attached hereto as Exhibit 2, the Escrow Bank has agreed to mail a notice of redemption and a notice of defeasance of that portion of the 2005 Bonds that is secured by payments under the 2005 Installment Sale Agreement in accordance with Sections 2.03(c) and 9.03, respectively, of the Prior Indenture, as required to provide for the redemption of that portion of the 2005 Bonds that is secured by payments under the 2005 Installment Sale Agreement in accordance with this Section 5.

(c) Unclaimed Moneys. Any moneys which remain unclaimed for two years after March 1, 2016 shall be repaid by the Escrow Agent to the City.

(d) Priority of Payments. The Prior Trustee, on behalf of the owners of those 2005 Bonds that are secured by payments under the 2005 Installment Sale Agreement, shall have a first and exclusive lien on all moneys and securities in the Escrow Fund until such moneys and such securities are used and applied as provided in this Escrow Agreement.

(e) Termination of Obligation. As provided in the 2005 Installment Sale Agreement, upon the deposit of moneys with the Escrow Agent in the Escrow Fund as set forth in Section 1 hereof and the purchase of the various Federal Securities as provided in Section 2 hereof, all obligations of the City under the 2005 Installment Sale Agreement shall cease, terminate and

become void (except for the rights of the Prior Trustee and the obligation of the City to have the Federal Securities and moneys on deposit in the Escrow Fund applied to Installment Payments).

SECTION 6. Application of Certain Terms of the 2005 Installment Sale Agreement and the Prior Indenture. All of the terms of the 2005 Installment Sale Agreement relating to notices to the Prior Trustee, the Prior Issuer and the City and the making of payments of principal and interest under the 2005 Installment Sale Agreement are incorporated in this Escrow Agreement as if set forth in full herein. The procedures set forth in Article VI of the Prior Indenture relating to the resignation and removal and merger of the Prior Trustee under the Prior Indenture are also incorporated in this Escrow Agreement as if set forth in full herein and shall be the procedures to be followed with respect to any resignation or removal of the Escrow Agent hereunder.

SECTION 7. Performance of Duties. The Escrow Agent agrees to perform the duties set forth herein and shall have no responsibility to take any action or omit to take any action not set forth herein.

SECTION 8. Escrow Agent's Authority to Make Investments. Except as provided in Section 2 hereof, the Escrow Agent shall have no power or duty to invest any funds held under this Escrow Agreement or to sell, transfer or otherwise dispose of the moneys or Federal Securities held hereunder.

SECTION 9. Indemnity. The City hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, directors, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the City or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Escrow Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds deposited therein, the acceptance of the funds and securities deposited therein, the retention of the proceeds thereof and any payment, transfer or other application of moneys by the Escrow Agent in accordance with the provisions of this Escrow Agreement; provided, however, that the City shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligent or willful misconduct of the Escrow Agent's respective agents and employees or the breach by the Escrow Agent of the terms of this Escrow Agreement. In no event shall the City or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Escrow Agreement.

SECTION 10. Responsibilities of the Escrow Agent. The Escrow Agent and its respective successors, assigns, agents and servants shall not be held to any personal liability whatsoever, in tort, contract or otherwise, in connection with the execution and delivery of this Escrow Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, the retention of the Federal Securities or the proceeds thereof, the sufficiency of the Federal Securities to pay the regularly scheduled payments under the 2005 Installment Sale Agreement through the Prepayment Date and to pay the Prepayment Price of the 2005 Installment Sale Agreement on the Prepayment Date or any payment, transfer or other application of moneys or obligations by the

Escrow Agent in accordance with the provisions of this Escrow Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The recitals of fact herein shall be taken as the statements of the City, and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the sufficiency of the funds deposited in the Escrow Fund to accomplish the prepayment of all amounts payable under the 2005 Installment Sale Agreement on the Prepayment Date or to the validity of this Escrow Agreement as to the City and, except as otherwise provided herein, the Escrow Agent shall incur no liability with respect thereto. The Escrow Agent shall not be liable in connection with the performance of its duties under this Escrow Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Escrow Agreement. The Escrow Agent may consult with counsel, who may or may not be counsel to the City, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection with respect to any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Escrow Agreement, such matter may be deemed to be conclusively established by a certificate signed by an authorized officer of the City.

The liability of the Escrow Agent to make the payments required by this Escrow Agreement shall be limited to the moneys in the Escrow Fund.

No provision of this Escrow Agreement shall require the Escrow Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers.

The Escrow Agent shall not be liable for the accuracy of any calculations provided herein.

Any company into which the Escrow Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Escrow Agent may sell or transfer all or substantially all of its corporate trust business shall be the successor to the Escrow Agent without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

The City shall pay the Escrow Agent full compensation for its duties under this Escrow Agreement, including out-of-pocket costs such as publication costs, redemption or redemption expenses, legal fees and other costs and expenses relating hereto. Under no circumstances shall amounts deposited in the Escrow Fund be deemed to be available for said purposes.

The Escrow Agent may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed.

The Escrow Agent agrees to accept and act upon instructions or directions pursuant to this Escrow Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Escrow Agent shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and

replaced whenever a person is to be added or deleted from the listing. If the City elects to give the Escrow Agent e-mail or facsimile instructions (or instructions by a similar electronic method) and the Escrow Agent in its discretion elects to act upon such instructions, the Escrow Agent's understanding of such instructions shall be deemed controlling. The Escrow Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Agent's reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written instruction. The City agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Escrow Agent, including without limitation the risk of the Escrow Agent acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The Escrow Agent shall furnish the City with periodic cash transaction statements that include detail for all investment transactions effected by the Escrow Agent or brokers selected by the City. Upon the City's election, such statements will be delivered via the Escrow Agent's online service and upon electing such service, paper statements will be provided only upon request. The City waives the right to receive brokerage confirmations of security transactions effected by the Escrow Agent as they occur, to the extent permitted by law. The City further understands that trade confirmations for securities transactions effected by the Escrow Agent will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

SECTION 11. Amendments. This Escrow Agreement is made for the benefit of the City, the Prior Issuer and the owners of the 2005 Bonds, and it shall not be repealed, revoked, altered or amended without the written consent of all such owners, the Escrow Agent and the City; provided, however, that upon the receipt by the Escrow Agent of an opinion of nationally recognized bond counsel that the exclusion from gross income of interest on the 2016A Bonds and the 2005 Installment Sale Agreement will not be adversely affected for federal income tax purposes, the City and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Escrow Agreement or enter into such agreements supplemental to this Escrow Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Escrow Agreement for any one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission in this Escrow Agreement; (b) to grant to, or confer upon, the Escrow Agent any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Escrow Agent; and (c) to include under this Escrow Agreement additional funds, securities or properties. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the Prior Issuer or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 12. Term. This Escrow Agreement shall commence upon its execution and delivery and shall terminate on the later to occur of either: (a) the date upon which the 2005 Installment Sale Agreement has been prepaid in accordance with this Escrow Agreement; or (b) the date upon which no unclaimed moneys remain on deposit with the Escrow Agent and all amounts owed to the Escrow Agent shall have been paid in full. Any unclaimed money which remains in the Escrow Fund for two years from the date upon which the 2005 Installment Sale Agreement has been prepaid in accordance with this Escrow Agreement shall be remitted by the Escrow Agent to the City.

SECTION 13. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to and any other reasonable fees and expenses of the Escrow Agent approved by the City; provided, however, that under no circumstances shall the Escrow Agent be entitled to any lien, nor will it assert any lien whatsoever, on any moneys or obligations in the Escrow Fund for the payment of fees and expenses for services rendered by the Escrow Agent under this Escrow Agreement.

SECTION 14. Severability. If any one or more of the covenants or agreements to be performed by the City or the Escrow Agent under this Escrow Agreement should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Escrow Agreement.

SECTION 15. Counterparts. This Escrow Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

SECTION 16. Governing Law. This Escrow Agreement shall be construed under the laws of the State of California.

SECTION 17. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Escrow Agreement, shall be a legal holiday or a day on which banking institutions in the City in which is located the principal office of the Escrow Agent are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in this Escrow Agreement, and no interest shall accrue for the period after such nominal date.

SECTION 18. Notices. Any notice or demand which by any provision of this Escrow Agreement is required or permitted to be given may be given or served by being deposited postage prepaid in a post office letter box, delivered via courier or overnight mail or sent via fax or electronic transmission addressed as follows:

If to the Escrow Agent:	Wells Fargo Bank, National Association 333 Market Street, 18th Floor San Francisco, California 94105
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If to the City:	City of Ukiah 300 Seminary Avenue Ukiah, California 95842 Attention: City Manager
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SECTION 19. Assignment. This Escrow Agreement shall not be assigned by the Escrow Agent or any successor thereto without the prior written consent of the City.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed by their duly authorized officers and attested as of the date and year first written above.

CITY OF UKIAH

By: _____
Mayor

ATTEST:

City Clerk

[SIGNATURES CONTINUED ON NEXT PAGE.]

[SIGNATURE PAGE CONTINUED.]

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Escrow Agent and as Prior
Trustee

By: _____
Authorized Officer

The foregoing Escrow Agreement (2005 Installment Sale Agreement), dated as of March 1, 2015, by and between the City of Ukiah and Wells Fargo Bank, National Association, is hereby acknowledged.

ASSOCIATION OF BAY AREA GOVERNMENTS

By: _____
Authorized Officer

SCHEDULE A
FEDERAL SECURITIES

<i>Security</i>	<i>Maturity</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
	_____	\$_____	_____%

EXHIBIT 1

ESCROW FUND PAYMENT SCHEDULE

<i>Date</i>	<i>Principal Amount</i>	<i>Interest Amount</i>	<i>Total</i>
March 1, 2016	\$	\$	\$

EXHIBIT 2

IRREVOCABLE INSTRUCTIONS AND REQUEST TO PRIOR TRUSTEE AND ESCROW BANK

January 26, 2016

Wells Fargo Bank, National Association
San Francisco, California

ASSOCIATION OF BAY AREA GOVERNMENTS 2005 WATER AND WASTEWATER REVENUE BONDS, SERIES A

BASE CUSIP 07201R

Ladies and Gentlemen:

As trustee for the above-captioned obligations (the “2005 Bonds”), which were issued pursuant to an Indenture of Trust, dated as of September 1, 2005 (the “2005 Indenture”), by and between the Association of Bay Area Governments (the “Prior Issuer”) and Wells Fargo Bank, National Association, as trustee (the “Prior Trustee”), you are hereby notified of the election of the City of Ukiah (the “City”) to prepay on March 1, 2016 all outstanding amounts under the Installment Sale Agreement, dated as of September 1, 2005 (the “2005 Installment Sale Agreement”), by and between the City and the Prior Issuer, which will cause a corresponding redemption and defeasance of a portion of the 2005 Bonds (such portion, the “Refunded Bonds”) in accordance with the 2005 Indenture.

You are hereby further instructed: (a) to mail on January 29, 2016 a notice of redemption of the Refunded Bonds in substantially the form attached hereto as Exhibit 2-A to the parties described in and in accordance with Section 2.03(c) of the 2005 Indenture; and (b) to mail and to file with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System upon the defeasance of the Refunded Bonds a notice of defeasance in substantially the form attached hereto as Exhibit 2-B to the parties described in and in accordance with Section 9.03 of the 2005 Indenture.

CITY OF UKIAH

By: _____
City Manager

RECEIPT ACKNOWLEDGED AND CONSENTED TO:

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Prior Trustee and Escrow Bank

By: _____
Authorized Officer

EXHIBIT 2-A

NOTICE OF REDEMPTION

ASSOCIATION OF BAY AREA GOVERNMENTS
2005 WATER AND WASTEWATER REVENUE BONDS,
SERIES A

BASE CUSIP 07201R

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds (the “2005 Bonds”) pursuant to the Indenture of Trust, dated as of September 1, 2005 (the “Indenture”), by and between the Association of Bay Area Governments (the “Prior Issuer”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”), that a portion of the outstanding 2005 Bonds in the aggregate principal amount of \$11,485,000 (the “Refunded Bonds”), which Refunded Bonds are payable from Installment Payments made by the City of Ukiah (the “City”) to the Prior Issuer under the Installment Sale Agreement, dated as of September 1, 2005, by and between the City and the Prior Issuer, have been called for redemption on March 1, 2016 (the “Redemption Date”). The Refunded Bonds to be called, which were originally issued on September 13, 2005, are as follows:

<u>Original CUSIP</u>	<u>Maturity (September 1)</u>	<u>Rate</u>	<u>Outstanding Amount of 2005 Bonds</u>	<u>Amount of Refunded Bonds to be Defeased</u>	<u>Price</u>	<u>Amount of 2005 Bonds to Remain Outstanding</u>
BQ4	2016	4.100%	\$ 550,000	\$ 375,000	100%	\$ 175,000
BR2	2017	4.100	570,000	390,000	100	180,000
BS0	2018	4.100	595,000	405,000	100	190,000
BT8	2019	4.100	620,000	425,000	100	195,000
BU5	2020	4.200	640,000	435,000	100	205,000
BV3	2021	4.250	670,000	455,000	100	215,000
BW1	2022	4.250	700,000	475,000	100	225,000
BX9	2023	4.250	730,000	495,000	100	235,000
BY7	2024	4.375	765,000	520,000	100	245,000
BZ4	2025	4.400	795,000	540,000	100	255,000
CA8	2026	4.400	565,000	565,000	100	-
CB6	2027	4.400	590,000	590,000	100	-
CC4	2028	4.400	620,000	620,000	100	-
CD2	2029	4.500	645,000	645,000	100	-
CE0	2035	4.500	4,550,000	4,550,000	100	-

The Refunded Bonds will be payable on the Redemption Date at a price of 100% of the principal amount plus accrued interest with respect thereto to such date (the “Redemption Price”). The Redemption Price of the Refunded Bonds will become due and payable on the Redemption Date. From and after the Redemption Date, interest on the Refunded Bonds to be redeemed will cease to accrue, and such Refunded Bonds will be surrendered to the Trustee.

Funds sufficient to pay the Redemption Price of the Refunded Bonds will be on deposit with the Trustee on the Redemption Date.

Redemption of the Refunded Bonds is conditional upon the receipt by the Trustee on or prior to the Redemption Date of moneys sufficient to pay the principal of and interest on the Refunded Bonds and, if such moneys have not been so received, this notice shall be of no force and effect and

the Trustee shall not be required to redeem such Refunded Bonds. In such event, the Trustee has the right to rescind this notice.

To receive payment on the Redemption Date, owners of the Refunded Bonds should present and surrender said Refunded Bonds on the Redemption Date at the address of the Trustee set forth below:

<u>By Registered or Certified Mail</u>	<u>By Air Courier:</u>	<u>If in person, by hand</u>
Wells Fargo Bank Minnesota, N.A. Corporate Trust Operations P.O. Box 1517 Minneapolis, MN 55480-1517	Wells Fargo Bank Minnesota, N.A. Corporate Trust Operations N9303-121 6th & Marquette Avenue Minneapolis, MN 55479	Wells Fargo Bank, NA Northstar East Building 608 2 nd Ave. So., 12 th Fl. Minneapolis, MN 55479

If the Owner of any Refunded Bond subject to optional redemption fails to deliver such Refunded Bond to the Trustee on the Redemption Date, such Refunded Bond shall nevertheless be deemed redeemed on the Redemption Date and the Owner of such Refunded Bond shall have no rights in respect thereof except to receive payment of the Redemption Price from funds held by the Trustee for such payment.

Wells Fargo Bank, N.A. policy does not allow the safekeeping of securities within Corporate Trust Operations for a period of longer than 30 days. Please DO NOT submit your securities for payment more than 30 days in advance of the Prepayment Date. A signed W-9 is required to accompany the Certificates or 28% of the Certificate prepayment proceeds will be withheld. If you request payment of principal and/or interest via wire transfer, please be advised that there is a \$25.00 fee which will be deducted from your payment. Questions pertaining to the delivery of and payment of Certificate tenders should be directed to customer service at 612-667-9764 or Toll Free at 1-800-344-5128.

Note: The City and the Trustee shall not be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness in the notice or as printed on any Refunded Bond. They are included solely for the convenience of the holders.

By: WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

Dated this 29th day of January, 2016.

EXHIBIT 2-B

NOTICE OF DEFEASANCE

ASSOCIATION OF BAY AREA GOVERNMENTS 2005 WATER AND WASTEWATER REVENUE BONDS, SERIES A

BASE CUSIP 07201R

Notice is hereby given to the owners of a portion of the outstanding bonds described below (collectively, the “Refunded Bonds”) that: (i) there have been deposited on the date hereof with Wells Fargo Bank, National Association, as trustee (the “Trustee”) under the Indenture of Trust, dated as of September 1, 2005 (the “Indenture”), by and between the Association of Bay Area Governments (the “Prior Issuer”) and the Trustee, moneys and Permitted Investments as permitted by the Indenture that are sufficient and available to pay or redeem, as applicable, the Refunded Bonds on March 1, 2016 at a price equal to 100% of the aggregate principal amount of the Refunded Bonds plus accrued interest with respect thereto; (ii) the Refunded Bonds are deemed to be paid; (iii) the pledge of the Revenues and other funds provided for in the Indenture with respect to the Refunded Bonds, and all other pecuniary obligations of the Prior Issuer under the Indenture with respect to all such Refunded Bonds has ceased and terminated except as set forth in the Indenture; (iv) the lien of the Indenture has been released with respect to the Refunded Bonds in accordance with Section 9.03 thereof; (v) the right, title and interest of the City of Ukiah (the “City”) under the Installment Sale Agreement, dated as of September 1, 2005 (the “2005 Installment Sale Agreement”), by and between the City and the Prior Issuer, and the obligations of the City under the 2005 Installment Sale Agreement have ceased, terminated, become void and been completely discharged and satisfied; and (vi) all obligations of the City, the Prior Issuer and the Trustee under the Indenture with respect to the Refunded Bonds have ceased, terminated and become void. In addition, all obligations of the City under the Continuing Disclosure Certificate executed by the City with respect to the Refunded Bonds have ceased and terminated.

The Refunded Bonds consist of the portion of the Association of Bay Area Governments 2005 Water and Wastewater Revenue Bonds, Series A described in the fifth column below:

<u>Original CUSIP</u>	<u>Maturity (September 1)</u>	<u>Rate</u>	<u>Outstanding Amount of 2005 Bonds</u>	<u>Amount of Refunded Bonds to be Defeased</u>	<u>Price</u>	<u>Amount of 2005 Bonds to Remain Outstanding</u>	<u>New CUSIP for 2005 Bonds to Remain Outstanding</u>	<u>New CUSIP for Defeased 2005 Bonds</u>
BQ4	2016	4.100%	\$ 550,000	\$ 375,000	100%	\$ 175,000		
BR2	2017	4.100	570,000	390,000	100	180,000		
BS0	2018	4.100	595,000	405,000	100	190,000		
BT8	2019	4.100	620,000	425,000	100	195,000		
BU5	2020	4.200	640,000	435,000	100	205,000		
BV3	2021	4.250	670,000	455,000	100	215,000		
BW1	2022	4.250	700,000	475,000	100	225,000		
BX9	2023	4.250	730,000	495,000	100	235,000		
BY7	2024	4.375	765,000	520,000	100	245,000		
BZ4	2025	4.400	795,000	540,000	100	255,000	N/A	N/A
CA8	2026	4.400	565,000	565,000	100	-	N/A	N/A
CB6	2027	4.400	590,000	590,000	100	-	N/A	N/A
CC4	2028	4.400	620,000	620,000	100	-	N/A	N/A
CD2	2029	4.500	645,000	645,000	100	-	N/A	N/A
CE0	2035	4.500	4,550,000	4,550,000	100	-	N/A	N/A

All Refunded Bonds shall be surrendered at the following address:

By Registered or Certified Mail

Wells Fargo Bank Minnesota, N.A.
Corporate Trust Operations
P.O. Box 1517
Minneapolis, MN 55480-1517

By Air Courier:

Wells Fargo Bank Minnesota, N.A.
Corporate Trust Operations
N9303-121
6th & Marquette Avenue
Minneapolis, MN 55479

If in person, by hand

Wells Fargo Bank, NA
Northstar East Building
608 2nd Ave. So., 12th Fl.
Minneapolis, MN 55479

No representation is made as to the correctness of the CUSIP number either as printed on any Refunded Bond or as contained herein and any error in the CUSIP number shall not affect the validity of the proceedings for redemption of the Refunded Bonds.

Dated this 1st day of March, 2016.

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY __, 2016

NEW ISSUE – BOOK ENTRY ONLY

RATINGS: See the caption “RATINGS”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2016 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”

\$ _____
CITY OF UKIAH

WATER REVENUE REFUNDING BONDS, SERIES 2016

Dated: Date of Issuance

Due: September 1, as set forth on the inside front cover page

The 2016 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the 2016 Bonds will not receive securities representing their beneficial ownership in the 2016 Bonds purchased. Interest on the 2016 Bonds is payable on September 1, 2016 and each March 1 and September 1 thereafter, until the maturity thereof. The principal of and interest on the 2016 Bonds are payable by the Trustee to Cede & Co., and such interest and principal payments are to be disbursed to the Beneficial Owners of the 2016 Bonds through their nominees.

The 2016 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption as more fully described herein.

The 2016 Bonds are being issued to provide funds, together with certain other moneys: (i) to prepay all amounts payable under the Installment Sale Agreement, dated as of September 1, 2005, by and between the City and the Association of Bay Area Governments; (ii) to prepay all amounts payable under a loan contract with the State of California Department of Water Resources; (iii) to purchase a municipal bond insurance policy from _____ to guarantee the payment of principal of and interest on the 2016 Bonds; (iv) to purchase a municipal bond debt service reserve insurance policy from _____ for deposit in the Reserve Fund for the 2016 Bonds; and (v) to pay costs of issuance of the 2016 Bonds, all as more fully described herein.

The 2016 Bonds are being issued pursuant to the Indenture of Trust, dated as of March 1, 2016, by and between the City of Ukiah and Wells Fargo Bank, National Association, as trustee. The 2016 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s municipal water system remaining after payment of Operation and Maintenance Costs, and from amounts on deposit in certain funds and accounts created under the Indenture.

The City may incur additional obligations payable from Net Revenues on a parity with the obligation to pay principal of and interest on the 2016 Bonds, subject to the terms and conditions of the Indenture, as more fully described herein.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2016 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2016 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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

[BOND INSURER LOGO]

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

MATURITY SCHEDULE – See Inside Front Cover Page

The 2016 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of the valid, legal and binding nature of the 2016 Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by David Rapport, City Attorney, for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, for the Insurer by its counsel and for the Trustee by its counsel. It is anticipated that the 2016 Bonds will be available for delivery through the facilities of The Depository Trust Company on or about March 1, 2016.

Raymond James

Dated: February __, 2016

* Preliminary; subject to change.

MATURITY SCHEDULE

BASE CUSIP^{®†} _____

\$ _____ *

CITY OF UKIAH

WATER REVENUE REFUNDING BONDS, SERIES 2016

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP^{®†} Suffix</i>
	\$	%	%		

\$ _____ % Term 2016 Bonds maturing September 1, 20 __, Yield _____ %, Price _____, CUSIP^{®†} Suffix _____

* Preliminary; subject to change.

† CUSIP[®] is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2016 CUSIP Global Services. All rights reserved. CUSIP[®] data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP[®] numbers are provided for convenience of reference only. Neither the City nor the Underwriter takes any responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2016 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2016 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 a representation of facts.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The information and expression of opinions herein are subject to change without notice and neither 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 since the date hereof.

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

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE 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. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

The 2016 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The 2016 Bonds have not been registered or qualified under the securities laws of any state. The Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exemption contained in such act.

The City maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2016 Bonds.

[BOND INSURANCE LANGUAGE TO COME]

**CITY OF UKIAH
COUNTY OF MENDOCINO
STATE OF CALIFORNIA**

MAYOR AND MEMBERS OF THE CITY COUNCIL

Steve Scalmanini, Mayor
Jim Brown, Vice Mayor
Kevin Doble, Council Member
Maureen Mulheren, Council Member
Douglas Crane, Council Member

STAFF

Sage Sangiacomo, City Manager
Karen Scalabrini, Finance Director
Kristine Lawler, City Clerk
Tim Eriksen, Public Works Director/City Engineer
Sean White, Water and Sewer Utilities Director

SPECIAL SERVICES

City Attorney

David Rapport
Rapport & Marston
Ukiah, California

Financial Advisor

Public Financial Management Inc.
San Francisco, California

Bond Counsel and Disclosure Counsel

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

Trustee

Wells Fargo Bank, National Association
San Francisco, California

TABLE OF CONTENTS

Page

SUMMARY STATEMENT	i
WATER REVENUE REFUNDING BONDS, SERIES 2016.....	1
INTRODUCTION	1
REFUNDING PLAN	2
2005 Installment Sale Agreement	2
State Loan	2
THE 2016 BONDS	2
General Provisions	2
Transfers and Exchanges Upon Termination of Book Entry Only System.....	3
Redemption of the 2016 Bonds.....	4
Notice of Redemption	4
Book Entry Only System	5
DEBT SERVICE PAYMENT SCHEDULE	5
SECURITY FOR THE 2016 BONDS.....	6
Limited Obligations Payable From Net Revenues.....	6
Rate Covenant.....	6
Additional Indebtedness.....	7
Reserve Fund	8
Insurance; Reconstruction, Repair and Replacement.....	9
Rate Stabilization Fund.....	10
ESTIMATED SOURCES AND USES OF FUNDS	10
BOND INSURANCE	11
THE CITY OF UKIAH	11
General.....	11
Service Area and Land Use.....	11
City Council	11
Employees and Management	12
Defined Benefit Pension Plan	13
No Other Post-Employment Benefits.....	17
Budget Process.....	17
City Insurance	17
No Parity Obligations.....	17
Seismic Considerations	18
Financial Statements	18
THE WATER SYSTEM OF THE CITY	18
General.....	18
Water Supply	19
Drought Measures.....	20
The Water System.....	23
Largest Water System Customers	26
Water System Rates and Charges	26
Future Water System Improvements.....	28
Water System Reserves.....	28
Historic Water System Operating Results and Debt Service Coverage.....	29
Projected Water System Operating Results and Debt Service Coverage.....	30
CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.....	31
Article XIIB.....	31

TABLE OF CONTENTS
(continued)

	<i>Page</i>
Proposition 218	31
Proposition 26	33
Future Initiatives	33
CERTAIN RISKS TO BONDHOLDERS	34
Limited Obligations	34
Accuracy of Assumptions	34
System Demand	34
System Expenses.....	34
Limited Recourse on Default	34
Rate-Setting Process under Proposition 218.....	35
Statutory and Regulatory Compliance	35
Natural Disasters	35
Limitations on Remedies	35
Loss of Tax Exemption.....	36
Secondary Market	36
Parity Obligations	36
Risks Associated with Bond Insurance	37
APPROVAL OF LEGAL PROCEEDINGS.....	37
LITIGATION	37
TAX MATTERS.....	38
RATINGS	39
UNDERWRITING	40
CONTINUING DISCLOSURE UNDERTAKING.....	41
FINANCIAL ADVISOR	41
FINANCIAL INTERESTS.....	41
MISCELLANEOUS	42
 APPENDIX A FINANCIAL STATEMENTS	 A-1
APPENDIX B DEFINITIONS AND SUMMARY OF THE INDENTURE	B-1
APPENDIX C FORM OF OPINION OF BOND COUNSEL	C-1
APPENDIX D INFORMATION CONCERNING DTC.....	D-1
APPENDIX E FORM OF CONTINUING DISCLOSURE CERTIFICATE	E-1
APPENDIX F SPECIMEN MUNICIPAL BOND INSURANCE POLICY	F-1

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement, and the offering of the 2016 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used and not otherwise defined in this Summary Statement have the meanings ascribed to them in this Official Statement.

Purpose. The 2016 Bonds are being issued to provide funds, together with certain other moneys: (i) to prepay all amounts payable under the Installment Sale Agreement, dated as of September 1, 2005, by and between the City and the Association of Bay Area Governments; (ii) to prepay all amounts payable under a loan contract with the State of California Department of Water Resources; (iii) to purchase a municipal bond insurance policy from _____ to guarantee the payment of principal of and interest on the 2016 Bonds; (iv) to purchase a municipal bond debt service reserve insurance policy from _____ for deposit in the Reserve Fund for the 2016 Bonds; and (v) to pay costs of issuance of the 2016 Bonds, all as more fully described herein. See the captions “REFUNDING PLAN,” “BOND INSURANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Security for the 2016 Bonds. The 2016 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s municipal water system remaining after payment of Operation and Maintenance Costs, and from amounts on deposit in certain funds and accounts created under the Indenture. The City may incur additional obligations payable on a parity with the obligation to pay principal of and interest on the 2016 Bonds in the future as described herein.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2016 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2016 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

See the caption “SECURITY FOR THE 2016 BONDS.”

Refunding Plan. A portion of the proceeds of the 2016 Bonds will be transferred to Wells Fargo Bank, National Association, as trustee with respect to the 2005 Installment Sale Agreement, on the date of issuance of the 2016 Bonds. The amount transferred to Wells Fargo Bank, National Association will be applied on such date to prepay the \$11,485,000 principal amount outstanding under the 2005 Installment Sale Agreement, plus accrued interest with respect thereto, and delivered to the State of California Department of Water Resources to prepay all amounts payable under a loan contract with the State of California Department of Water Resources. See the caption “REFUNDING PLAN.”

Rate Covenant. The Indenture requires the City, at all times while any of the 2016 Bonds remain unpaid, to the fullest extent permitted by law, to fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water Service provided by the Water System which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (which, when calculated for purposes of the foregoing covenant, do not include amounts transferred from the Rate Stabilization Fund pursuant to the Indenture that are in excess of 20% of Debt Service for such Fiscal Year) equal to 120% of Debt Service for such Fiscal Year. See the caption “SECURITY FOR THE 2016 BONDS—Rate Covenant.”

Additional Contracts and Bonds. The Indenture permits the City to execute any Contracts or issue any Bonds on a parity with the obligation to pay principal of and interest on the 2016 Bonds, provided that certain conditions are satisfied as described herein. See the caption “SECURITY FOR THE 2016 BONDS—Additional Indebtedness.” The Indenture also permits the City to execute or issue obligations payable on a subordinate basis to the 2016 Bonds.

Bond Insurance. Payment of the principal of and interest on the 2016 Bonds will be insured by a municipal bond insurance policy to be issued by _____ concurrently with the issuance of the 2016 Bonds. See the caption “BOND INSURANCE.”

Reserve Fund. A Reserve Fund for the 2016 Bonds has been established pursuant to the Indenture. _____ has committed to issue, concurrently with the issuance of the 2016 Bonds, a municipal bond debt service reserve insurance policy for the benefit of the 2016 Bonds in the initial principal amount of \$_____,* which constitutes the Reserve Fund Requirement. The Reserve Policy will be deposited in the Reserve Fund. The City is not obligated: (i) to make any additional deposits into the Reserve Fund in the event that _____ defaults on its obligation to make payments under the Reserve Policy; or (ii) to replace the Reserve Policy in the event of a rating downgrade of _____. See the caption “SECURITY FOR THE 2016 BONDS—Reserve Fund.”

Redemption. The 2016 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity as described herein. See the caption “THE 2016 BONDS—Redemption of the 2016 Bonds.”

The City and the Water System. The City encompasses approximately five square miles and is located in Mendocino County (the “County”), approximately 100 miles north of San Francisco in the northern coastal region of the State on U.S. Highway 101. The area is centrally located between the San Francisco Bay area, Eureka and Sacramento. The City was incorporated in 1876 and is a general law city operating under a City Council/City Manager form of government. The City has an estimated population of approximately 16,075 people.

In Fiscal Year 2015, the Water System supplied approximately 2,156 acre-feet of potable water through approximately 4,570 single-family residential and 1,151 multi-family residential and commercial (including governmental, landscape, fire service and other) connections.

The Water System’s service area includes the incorporated area of the City and certain adjacent unincorporated areas.

The City’s primary source of water is surface water, which is supplied by the Russian River and two alluvial wells adjacent thereto. The City also extracts groundwater from three wells located in the Ukiah Valley Groundwater Basin.

For information concerning the Water System, see the caption “THE WATER SYSTEM OF THE CITY.” For general information regarding the City, see the caption “THE CITY OF UKIAH” and Appendix A.

* Preliminary; subject to change.

\$ _____^{*}
CITY OF UKIAH
WATER REVENUE REFUNDING BONDS, SERIES 2016

INTRODUCTION

This Official Statement, including the front cover page, the inside front cover page and all appendices hereto, provides certain information concerning the sale and delivery of the City of Ukiah Water Revenue Refunding Bonds, Series 2016 (the “2016 Bonds”). The 2016 Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2016 (the “Indenture”), by and between the City of Ukiah (the “City”) and Wells Fargo Bank, National Association, San Francisco, California, as trustee (the “Trustee”). Descriptions and summaries of various documents set forth in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein have the meanings ascribed to them in Appendix B.

The 2016 Bonds are being issued to provide funds, together with certain other moneys: (i) to prepay all amounts payable under the Installment Sale Agreement, dated as of September 1, 2005 (the “2005 Installment Sale Agreement”), by and between the City and the Association of Bay Area Governments (“ABAG”), which is currently outstanding in the principal amount of \$11,485,000; (ii) to prepay all amounts payable under Loan Contract No. E54304, dated September 30, 1988 (the “State Loan”), by and between the City and the State of California Department of Water Resources (“DWR”); (iii) to purchase a municipal bond insurance policy (the “Policy”) from _____ (“___” or the “Insurer”) to guarantee the payment of principal of and interest on the 2016 Bonds; (iv) to purchase a municipal bond debt service reserve insurance policy (the “Reserve Policy”) from the Insurer for deposit in the Reserve Fund for the 2016 Bonds; and (v) to pay costs of issuance of the 2016 Bonds. See the captions “REFUNDING PLAN,” “BOND INSURANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 2016 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s municipal water system (the “Water System”) remaining after payment of Operation and Maintenance Costs of the Water System, as such terms are defined in Appendix B, and from amounts on deposit in certain funds and accounts created under the Indenture.

The City may incur additional obligations payable on a parity with the obligation to pay principal of and interest on the 2016 Bonds in the future as described under the caption “SECURITY FOR THE 2016 BONDS—Additional Indebtedness.”

The 2016 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity as described herein. See the caption “THE 2016 BONDS—Redemption of the 2016 Bonds.”

Payment of the principal of and interest on the 2016 Bonds will be insured by the Policy to be issued by the Insurer concurrently with the issuance of the 2016 Bonds. See the caption “BOND INSURANCE.”

A Reserve Fund for the 2016 Bonds has been established pursuant to the Indenture. The Insurer has committed to issue, concurrently with the issuance of the 2016 Bonds, the Reserve Policy for the benefit of the 2016 Bonds in the initial principal amount of \$_____,^{*} which constitutes the Reserve Fund Requirement. The Reserve Policy will be deposited in the Reserve Fund. The City is not obligated: (i) to make any additional deposits into the Reserve Fund in the event that the Insurer defaults on its obligation to make payments under the Reserve Policy; or (ii) to replace the Reserve Policy in the event of a rating downgrade of the Insurer. See the caption “SECURITY FOR THE 2016 BONDS—Reserve Fund.”

^{*} Preliminary; subject to change.

The summaries and references to the Indenture and all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by reference to the full Indenture or the respective document, statute, report or instrument, copies of which are available for inspection at the offices of the City in Ukiah, California and will be available from the Trustee upon request and payment of duplication cost. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Indenture and, as used herein, has the meaning given to it in the Indenture. Unless otherwise indicated, all financial and statistical information herein has been provided by the City.

The City regularly prepares a variety of reports, including audits, budgets and related documents. Any registered owner of the 2016 Bonds may obtain a copy of such reports, as available, from the Trustee or the City. Additional information regarding the Official Statement may be obtained by contacting the Trustee or the City of Ukiah, 300 Seminary Avenue, Ukiah, California 95482, Attention: Finance Director.

REFUNDING PLAN

2005 Installment Sale Agreement

The City entered into the 2005 Installment Sale Agreement, which is currently outstanding in the principal amount of \$11,485,000, to finance certain capital improvements to the Water System. The City plans to apply a portion of the proceeds of the 2016 Bonds, to pay all outstanding amounts under the 2005 Installment Sale Agreement on March 1, 2016 (the "Prepayment Date") at a prepayment price equal to the outstanding principal amount thereof, plus accrued interest with respect thereto, without premium (the "Prepayment Price").

Assuming the sufficiency of the moneys deposited with for such purposes, as a result of the deposit and application of funds as provided above, the 2005 Installment Sale Agreement will be defeased pursuant to the provisions thereof as of the date of issuance of the 2016 Bonds.

The portion of the proceeds of the 2016 Bonds constituting the Prepayment Price is pledged solely to the payment of the Prepayment Price of the 2005 Installment Sale Agreement, and will not be available for the payments of principal of and interest on the 2016 Bonds.

State Loan

The City entered into the State Loan, which is currently outstanding in the principal amount of \$768,905, to finance certain capital improvements to the Water System. On the date of issuance of the 2016 Bonds, the City will deliver a portion of the proceeds of the 2016 Bonds, which, together with amounts held in the debt service fund for the State Loan, are sufficient to pay all outstanding amounts under the State Loan to the Trustee. The Trustee will hold such moneys uninvested until April 1, 2016, on which date the Trustee will pay all outstanding amounts under the State Loan at a prepayment price equal to the outstanding principal amount thereof, plus accrued interest with respect thereto, without premium.

THE 2016 BONDS

General Provisions

The 2016 Bonds will be issued in the aggregate principal amount of \$_____.^{*} The 2016 Bonds will be dated as of the date of initial issuance thereof (the "Issuance Date"), will bear interest from such date at the rates per annum set forth on the inside front cover page hereof, payable on September 1, 2016 and each March 1 and September 1 thereafter (each, an "Interest Payment Date"), and will mature on the dates set forth on the

^{*} Preliminary; subject to change.

inside cover page hereof. Interest on the 2016 Bonds will be computed on the basis of a 360 day year composed of twelve 30 day months.

The 2016 Bonds will be issued only in fully registered form and, when issued, 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 2016 Bonds. Ownership interests in the 2016 Bonds may be purchased in book entry form, in denominations of \$5,000 or any integral multiple thereof. See the caption “—Book Entry Only System” below and Appendix D.

In the event that the book entry only system described below is discontinued, the principal of and redemption premium (if any) on the 2016 Bonds are payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the office of the Trustee in San Francisco, California (the “Office of the Trustee”). Interest on the 2016 Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the “Registration Books”) as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the “Record Date”), such interest to be paid by check of the Trustee, sent by first class mail on the applicable Interest Payment Date to the Owner at such Owner’s address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of 2016 Bonds may, at such Owner’s option, be paid by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest and premium, if any, on the 2016 Bonds will be payable in lawful money of the United States.

Each 2016 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before August 15, 2016, in which event it will bear interest from the Issuance Date; provided, however, that if, as of the date of authentication of any 2016 Bond, interest thereon is in default, such 2016 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Transfers and Exchanges Upon Termination of Book Entry Only System

In the event that the book entry system described under the caption “—Book Entry Only System” is abandoned, the 2016 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2016 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by such person’s duly authorized attorney, upon surrender of such 2016 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee is not required to register the transfer of any 2016 Bond during the period in which the Trustee is selecting 2016 Bonds for redemption and any 2016 Bond that has been selected for redemption.

Whenever any 2016 Bond or 2016 Bonds are surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new 2016 Bond or 2016 Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the 2016 Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds that it has received.

2016 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee is not required to exchange any 2016 Bond during the period in which the Trustee is selecting 2016 Bonds for redemption and any 2016 Bond that has been selected for redemption. The Trustee will require the 2016 Bond Owner requesting such

exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds that it has received.

Redemption of the 2016 Bonds

Optional Redemption. The 2016 Bonds with stated maturities on or after September 1, 20__, are subject to redemption prior to their respective stated maturities, as a whole or in part, on September 1, 20__ or any date thereafter, as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice being for the convenience of the Trustee) prior to the Redemption Date, and by lot within each maturity in integral multiples of \$5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption. The 2016 Bonds maturing on September 1, 20__ are subject to mandatory sinking fund redemption in part (by lot) on each September 1 on and after September 1, 20__, in integral multiples of \$5,000, at a Redemption Price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium, in accordance with the below schedule. On each of the following payment dates, the Trustee will pay from the Redemption Fund an amount equal to the payment or payments due on such date as set forth below.

<i>Mandatory Sinking Fund Redemption Date (September 1)</i>	<i>Principal Amount</i>
	\$

(maturity)

If some, but not all, of the 2016 Bonds maturing on September 1, 20__ have been redeemed under the optional redemption provisions of the Indenture (as set forth under the caption “—Optional Redemption”), the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of such 2016 Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the City, which will notify the Trustee in writing of such determination.

Extraordinary Redemption. The 2016 Bonds are subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the City in a Written Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice being for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in, the Indenture, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Notice of Redemption

Notice of redemption will be mailed by first class mail at least 20 days but not more than 60 days before any Redemption Date, to the respective Owners of any 2016 Bonds designated for redemption at their

addresses appearing on the Registration Books, to the Securities Depositories and the Information Services; provided that, in the case of notice of optional redemption not related to an advance or current refunding, such notice may be given only if sufficient funds have been deposited with the Trustee to pay the applicable Redemption Price of the 2016 Bonds to be redeemed; and provided further, that such notice may be cancelled by the City upon Written Request delivered to the Trustee not less than five days prior to such Redemption Date. Each notice of redemption will: (a) state the date of notice, the Redemption Date, the place or places of redemption and the Redemption Price; and (b) designate the maturities, CUSIP numbers, if any, and, if less than all 2016 Bonds of any such maturity are to be redeemed, the serial numbers of the 2016 Bonds of such maturity to be redeemed by giving the individual number of each 2016 Bond or by stating that all 2016 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2016 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the Redemption Date there will become due and payable on each of said 2016 Bonds or parts thereof designated for redemption the Redemption Price thereof, or of said specified portion of the principal thereof in the case of a 2016 Bond to be redeemed in part only, together with interest accrued thereon to the Redemption Date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such Redemption Date, interest thereon will cease to accrue, and will require that such 2016 Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2016 Bond. Notice of redemption of 2016 Bonds will be given by the Trustee, at the expense of the City, for and on behalf of the City.

With respect to any notice of optional redemption of 2016 Bonds, such notice may state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2016 Bonds to be redeemed and that, if such moneys have not been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such 2016 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Book Entry Only System

One fully-registered 2016 Bond of each maturity will be issued in the principal amount of the 2016 Bonds of such maturity. Such 2016 Bond will be registered in the name of Cede & Co. and will be deposited with DTC.

The City may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). In that event, the 2016 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer. See the caption “—Transfers and Exchanges Upon Termination of Book Entry Only System.”

The City cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 2016 Bonds received by DTC or its Nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners (as such term is defined in Appendix D), that they will do so on a timely basis or that DTC will service and act in the manner described in this Official Statement. See Appendix D for additional information concerning DTC.

DEBT SERVICE PAYMENT SCHEDULE

Set forth below is an annualized schedule of principal of and interest on the 2016 Bonds for the period ending June 30 in each of the years indicated.

<i>Period Ending June 30</i>	<i>2016 Bonds Principal</i>	<i>2016 Bonds Interest</i>	<i>2016 Bonds Total</i>
2016 ⁽¹⁾	\$	\$	\$
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
TOTAL	\$	\$	\$

⁽¹⁾ Period ending September 1, 2016 excludes debt service on the 2005 Installment Sale Agreement and the State Loan, which are being refunded from proceeds of the 2016 Bonds as described under the caption "REFUNDING PLAN."

Source: Raymond James & Associates, Inc.

SECURITY FOR THE 2016 BONDS

Limited Obligations Payable From Net Revenues

The City is obligated to make payments of principal of and interest on the 2016 Bonds solely from Net Revenues. The term "Net Revenues" means, for any period, the Revenues for such period less the Operation and Maintenance Costs for such period. When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues will include all interest or gain derived from the investment of amounts in any of such funds or accounts. See Appendix B for a detailed discussion of the terms of the Indenture.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2016 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2016 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Rate Covenant

In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund (as described under the caption "—Rate Stabilization Fund") on the first day of such Fiscal Year is less than the Debt Service on

the 2016 Bonds payable in such Fiscal Year, to the fullest extent permitted by law, the City will fix and prescribe, at the commencement of each such Fiscal Year, rates and charges for the Water Service provided by the Water System that are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (which, when calculated for purposes of the foregoing covenant, do not include amounts transferred from the Rate Stabilization Fund pursuant to the Indenture that are in excess of 20% of Debt Service for such Fiscal Year) equal to 120% of Debt Service for such Fiscal Year.

In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund on the first day of such Fiscal Year is at least equal to the Debt Service on the 2016 Bonds payable in such Fiscal Year, to the fullest extent permitted by law, the City will fix and prescribe, at the commencement of each such Fiscal Year, rates and charges for the Water Service provided by the Water System that are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Revenues (which, when calculated for purposes of the foregoing covenant, do not include amounts transferred from the Rate Stabilization Fund pursuant to the Indenture) equal to 120% of Operation and Maintenance Costs for such Fiscal Year.

The City may make, or permit to be made, adjustments from time to time in such rates, fees and charges and may make, or permit to be made, such classification thereof as it deems necessary, but may not reduce or permit to be reduced such rates, fees and charges below those then in effect, unless the Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the foregoing requirements..

Additional Indebtedness

Pursuant to the Indenture, the City may at any time execute any Contract or issue any Bonds, as the case may be, payable from Net Revenues on a parity with the 2016 Bonds, provided that:

(a) The Net Revenues (which, when calculated for purposes of the below, do not include amounts transferred from the Rate Stabilization Fund to the Revenue Fund pursuant to the Indenture that are in excess of 20% of Debt Service for such Fiscal Year) for the most recent audited Fiscal Year preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the City, produce a sum equal to at least 120% of the Debt Service for such Fiscal Year; and

(b) The Net Revenues (which, when calculated for purposes of the below, do not include amounts transferred from the Rate Stabilization Fund to the Revenue Fund pursuant to the Indenture that are in excess of 20% of Debt Service for such Fiscal Year) for the most recent audited Fiscal Year preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges for the Water Service approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the City, produce a sum equal to at least 120% of the Debt Service for such Fiscal Year, plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year, assuming that such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year, plus the Debt Service which would have accrued had such proposed additional Contract been executed or proposed additional Bonds been issued at the beginning of such Fiscal Year.

Notwithstanding the foregoing, Bonds or Contracts may be issued or incurred to refund outstanding Bonds or Contracts if, after giving effect to the application of the proceeds thereof, total Debt Service will not be increased in any Fiscal Year in which Bonds or Contracts (outstanding on the date of issuance or incurrence

of such refunding Bonds or Contracts, but excluding such refunding Bonds or Contracts) not being refunded are outstanding.

Nothing contained in the Indenture limits the issuance of any obligations payable from Net Revenues on a subordinate basis to the Contracts and Bonds.

Reserve Fund

The Trustee will establish and maintain a separate fund to be known as the “Reserve Fund.” On the date of issuance of the 2016 Bonds, the Reserve Policy will be deposited in the Reserve Fund for the benefit of the 2016 Bonds. The Reserve Policy will be applied by the Trustee solely for the purposes set forth in the Indenture.

The City is not obligated: (i) to make any additional deposits into the Reserve Fund in the event that the Insurer defaults on its obligation to make payments under the Reserve Policy; or (ii) to replace the Reserve Policy in the event of a rating downgrade of the Insurer.

At least five Business Days before any Interest Payment Date, the Trustee will ascertain the necessity for a claim under the Reserve Policy in accordance with the terms of the Indenture, and will provide notice to the Reserve Insurer at least five Business Days prior to each date upon which interest or principal is due on the 2016 Bonds.

If five Business Days before any Interest Payment Date, the moneys available in the Payment Fund do not equal the amount of the principal of and interest on the 2016 Bonds then coming due and payable, the Trustee will apply the moneys available in the Reserve Fund to make delinquent payments of principal of and interest on the 2016 Bonds on behalf of the City by transferring the amount necessary for such purpose to the Payment Fund. All cash and investments in the Reserve Fund will be transferred to the Payment Fund before any drawing may be made on the Reserve Policy or any other Credit Facility. The Trustee will take whatever action is necessary to liquidate or draw upon investments of funds held in the Reserve Fund or draw upon the Reserve Policy or other Credit Facility to make such funds available for application as provided in the Indenture on the Interest Payment Date.

The Trustee will repay the Reserve Insurer any draws under the Reserve Policy, together with interest thereon, at the Late Payment Rate from Revenues received from the City. The Trustee will also pay all related reasonable expenses incurred by the Reserve Insurer, together with interest thereon, at the Late Payment Rate from Revenues received from the City.

Repayment of draws under the Reserve Policy and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, “Policy Costs”) will commence in the first month following each draw, and each such monthly payment will be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw. Payment of any Policy Costs and reimbursements of amounts with respect to other Credit Facilities will be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund.

Amounts in respect of Policy Costs paid to the Reserve Insurer will be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Reserve Insurer on account of principal drawn on the Reserve Policy, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

If the City fails to pay any Policy Costs in accordance with the requirements of the Indenture, the Reserve Insurer will be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture, other than remedies which would adversely affect owners of the 2016 Bonds. The Indenture may not be discharged or terminated until all Policy Costs that are owed to the Reserve

Insurer have been paid in full. The City's obligation to pay such amounts will expressly survive payment in full of the 2016 Bonds.

Insurance; Reconstruction, Repair and Replacement

Casualty Events. The City has covenanted to maintain insurance on the Water System with responsible insurers in amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with facilities similar to the Water System so long as such insurance is available from reputable insurance companies at reasonable rates. The City maintains insurance coverages as described under the caption "THE CITY OF UKIAH—City Insurance," including earthquake insurance. See Appendix B under the caption "PARTICULAR COVENANTS—Insurance" for a description of the insurance coverages required by the Indenture.

In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The City will begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same are completed and the Water System is free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Water System, and/or the cost of the construction of additions, betterments, extensions or improvements to the Water System, then the excess Net Proceeds will be applied in part to the redemption of 2016 Bonds as provided in the Indenture (see the caption "THE 2016 BONDS—Redemption of the 2016 Bonds—Extraordinary Redemption") and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of 2016 Bonds then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the City to retire the entire obligation evidenced by the 2016 Bonds prior to the final due date of the 2016 Bonds as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the City may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Water System, and/or not to construct other additions, betterments, extensions or improvements to the Water System; and thereupon such Net Proceeds will be applied to the redemption of 2016 Bonds as provided in the Indenture and to the retirement of such Bonds and Contracts. See the captions "CERTAIN RISKS TO BONDHOLDERS—System Expenses" and "CERTAIN RISKS TO BONDHOLDERS—Natural Disasters."

The City will procure and maintain such other insurance as it deems advisable or necessary to protect its interests and the interests of the 2016 Bond Owners, which insurance affords protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water System.

Any insurance required to be maintained as described above may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

Eminent Domain Events. If all or any part of the Water System is taken by eminent domain proceedings, the Net Proceeds thereof will be applied as follows:

(a) If: (1) the City files with the Trustee a certificate showing: (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the City by reason of such eminent domain proceedings; (ii) a general description of the additions, betterments, extensions or improvements to the Water System proposed to

be acquired and constructed by the City from such Net Proceeds; and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements; and (2) the City, on the basis of such certificate filed with the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the City to meet its obligations under the Indenture will not be substantially impaired (which determination will be final and conclusive), then the City will promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds will be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the City for such purpose will be deposited in the Water System Revenue Fund.

(b) If the foregoing conditions are not met, then such Net Proceeds will be applied by the City in part to the redemption of 2016 Bonds as provided in the Indenture (see the caption “THE 2016 BONDS—Redemption of the 2016 Bonds—Extraordinary Redemption”) and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of 2016 Bonds then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Rate Stabilization Fund

The City will maintain a special fund designated as the “Rate Stabilization Fund,” which fund the City has agreed and covenanted to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. Money transferred by the City from the Revenue Fund to the Rate Stabilization Fund in accordance with the Indenture will be held in the Rate Stabilization Fund and applied in accordance with the Indenture.

The City may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Revenue Fund to be applied to the payment of principal of and interest on the 2016 Bonds or, in the event that all or a portion of the 2016 Bonds are discharged, transfer all or any portion of such amounts for application in accordance with the Indenture. Any such amounts transferred from the Rate Stabilization Fund to the Revenue Fund in accordance with the Indenture constitute pledged Revenues.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds:

Sources⁽¹⁾:

Principal Amount	\$
Plus/Less Net Original Issue Premium/Discount	
Additional Moneys ⁽²⁾	
Total Sources	<u>\$</u>

Uses⁽¹⁾:

Prepayment of 2005 Installment Sale Agreement	\$
Prepayment of State Loan	
Costs of Issuance ⁽³⁾	
Total Uses	<u>\$</u>

⁽¹⁾ All amounts rounded to the nearest dollar. Totals may not add due to rounding.

⁽²⁾ Reflects moneys held in funds and accounts established in connection with the State Loan.

⁽³⁾ Includes Underwriter’s discount, premium for the Policy and the Reserve Policy and certain legal, rating agency, printing and other financing-related costs.

BOND INSURANCE

The information under this caption has been prepared by the Insurer for inclusion in this Official Statement. Neither the City nor the Underwriter has reviewed this information, nor do the City or the Underwriter make any representation with respect to the accuracy or completeness thereof. The following information is not a complete summary of the terms of the Policy and reference is made to Appendix F for a specimen of the Policy.

[TO COME FROM BOND INSURER].

THE CITY OF UKIAH

General

The City encompasses approximately five square miles and is located in Mendocino County (the “County”), approximately 100 miles north of San Francisco in the northern coastal region of the State on U.S. Highway 101. The area is centrally located between the San Francisco Bay area, Eureka and Sacramento. The City was incorporated in 1876 and is a general law city operating under a City Council/City Manager form of government. The City has an estimated population of approximately 16,075 people.

The City provides police, fire, street and infrastructure maintenance, storm drain, park and community recreation, museum, community development and other services to residents. The City also provides water, wastewater and electric services through the operations of its utility enterprises and operates an airport and civic center. The City’s water utility (the “Water System”) is operated by the Water Utility Division of the Public Works Department.

The City’s primary source of water is surface water, which is supplied by the Russian River and two alluvial wells adjacent thereto. The City also extracts groundwater from three wells located in the Ukiah Valley Groundwater Basin. Over the past five Fiscal Years, an average of approximately 46% of the water delivered by the City has been supplied by the Russian River and approximately 54% of the water delivered by the City has been supplied by the City’s groundwater wells and water diverted from Lake Mendocino. See the caption “THE WATER SYSTEM OF THE CITY.”

Service Area and Land Use

The Water System’s service area includes the incorporated area of the City and certain adjacent unincorporated areas. With limited exceptions, new residents and businesses in the City are required to connect to the Water System.

The City is substantially built out and significant new development is not expected in the future. Land use within the City is primarily residential, with some commercial/governmental and park/landscape uses. The City currently has approximately 4,570 single-family residential customers and 1,151 multi-family residential, commercial, governmental, fire service and other customers. All accounts are metered.

City Council

The City is governed by a five member City Council. City Councilmembers are elected at large and serve staggered four-year terms. The current City Councilmembers and the expiration dates of their terms are set forth below.

<i>Council Members</i>	<i>Expiration of Term</i>
Steve Scalmanini, <i>Mayor</i>	November 2016
Jim Brown, <i>Vice Mayor</i>	November 2018
Kevin Doble, <i>Council Member</i>	November 2018
Maureen Mulheren, <i>Council Member</i>	November 2018
Douglas Crane, <i>Council Member</i>	November 2016

Employees and Management

As of June 30, 2015, the City had approximately 187 full-time equivalent employees, of which approximately 12 work for the Water Utility Division of the Public Works Department. Non-management Public Works Department employees are represented by the Operating Engineers Local No. 3 (“Local No. 3”) and certain Public Works Department managers are represented by the Management Unit (the “Managers Association”). Relations between the City and these bargaining units are governed by memoranda of understanding (each, an “MOU”). The current MOUs with Local No. 3 and the Managers Association expired in September 2015. The City and Local No. 3 and the City and the Managers Association are currently operating under the terms of the expired MOUs while new MOUs are being negotiated. Other City employees are also represented by bargaining units. The City has never experienced a strike, slowdown or work stoppage.

The Water System is overseen by the City Manager, the Public Works Director/City Engineer, the Water and Sewer Utilities Director and the Finance Director. Legal services are provided to the City by David Rapport, City Attorney.

Day-to-day management of the City is delegated to the City Manager, Sage Sangiacomo. Mr. Sangiacomo has served as the City Manager since June 2015 and has over 17 years of experience in municipal administration. In his role as City Manager, Mr. Sangiacomo serves as the administrative head of the City and is responsible for the operation of all City departments. Prior to becoming City Manager, Mr. Sangiacomo served the City as a Community Services Supervisor from 1998 to 2006, the Community Services Director from 2006 to 2010 and an Assistant City Manager from 2010 to 2015. Mr. Sangiacomo is a credentialed city manager by the International City Managers Association and holds a Bachelor’s degree from the University of California, Davis.

Tim Eriksen serves as the City’s Public Works Director/City Engineer. Mr. Eriksen has served in this capacity since 2006. Mr. Eriksen has been with the City since 2000, initially as a Senior Civil Engineer. Before joining the City, he worked for the County of San Mateo and a private civil engineering firm. Mr. Eriksen received his Bachelor of Science degree in Civil Engineering from California State University at San Jose in 1998. In addition, Mr. Eriksen has been a registered Professional Engineer in California since 2001.

Sean White serves as the City’s Water and Sewer Utilities Director. Mr. White has been with the City since 2015 and has worked on regional water issues since 1994 after being elected to the Marin Municipal Water District Board of Directors. Mr. White also previously led the Natural Resources Section of the Sonoma County Water Agency and served as general manager of the Mendocino County Russian River Flood Control and Water Conservation Improvement District. Mr. White received his Bachelor of Science Degree in Fisheries Biology from Humboldt State University as an Honors Graduate in 1991.

Karen Scalabrini serves as the City’s Finance Director. Ms. Scalabrini has been with the City since 2014. Ms. Scalabrini previously served as Finance Director for the City of St. Helena for approximately ten years and as an accountant for the City of Healdsburg for just over nine years. She also previously worked in the private sector implementing and supporting accounting systems. Ms. Scalabrini received her Bachelor’s Degree in Business Administration with a concentration in Accounting from California State University at Sonoma.

David Rapport serves as the City Attorney. Mr. Rapport has served as the City Attorney since 1983. Mr. Rapport has practiced law since 1972 and holds a bachelor's degree from the University of California, Davis and a law degree from the University of California, Berkeley.

Defined Benefit Pension Plan

This caption contains certain information relating to the California Public Employees Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The City has not independently verified the information provided by CalPERS and neither makes any representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are forward-looking statements that reflect the judgment of the fiduciaries of the pension plans, and they are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

Plan Description. The City contributes to the California Public Employees' Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City. Benefit provisions and all other requirements are established pursuant to State statute and City ordinance.

Public Works Department employees participate in two Miscellaneous Plans: (i) a 2.7% at 55 Plan (the "Classic Plan") for employees hired prior to January 1, 2013; and (ii) a 2.0% at 67 Plan (the "PEPRA Plan") for employees hired on or after January 1, 2013 who were not previously CalPERS members. Participants in the Classic Plan are required by State statute to contribute 8% of their annual covered salary. Participants in the PEPRA Plan are required by State statute to contribute 7% of their annual covered salary. The City does not make any portion of such contributions for Classic Plan or PEPRA Plan members.

Funding Policy. Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. The City currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the City's unfunded actuarial liability. For Fiscal Years 2014 and 2015, the City's required and actual employer contributions to CalPERS for the City's Miscellaneous Plans (from all funds, including the Water Fund) were \$1,995,467 and \$2,488,643, respectively. Such contributions were equal to the respective annual required contributions described below.

Based on the actuarial valuation of CalPERS assets, the City's required employer contribution to the retirement plans for Fiscal Years 2014 and 2015 was 26.237% and 27.955%, respectively, of annual covered payroll for Miscellaneous Plan members. The City made contributions to CalPERS in such amounts.

The required employer contribution for Fiscal Year 2015 was determined as part of the June 30, 2012, actuarial valuation using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions for the June 30, 2012 valuation included: (a) 7.50% investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary from 3.30% to 14.20%; and (c) a 2.75% inflation component. The actuarial value of CalPERS assets was determined using a technique that smoothes the effect of volatility in the market value of investments over a fifteen-year period. CalPERS' initial unfunded liabilities are

amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period.

Subsequent to the June 30, 2012 actuarial valuation, CalPERS made changes to actuarial assumptions and methods. These changes include: moving from using smoothing of the market value of assets to obtain the actuarial value of assets to direct smoothing of employer contribution rates; increased life expectancy; changes to retirement ages (earlier for some groups and later for others); lower rates of disability retirement; and other changes. CalPERS has not provided current estimates of the effects of these changes which are specific to the City.

The City's annual pension cost for Fiscal Years 2012 through 2015 for Miscellaneous Plan members is shown below:

<i>Fiscal Year</i>	<i>Annual Pension Cost (APC)⁽¹⁾</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation</i>
06/30/2012	\$1,826,673	100%	\$-
06/30/2013	2,038,799	100	-
06/30/2014	1,995,467	100	-
06/30/2015	2,488,643	100	-

⁽¹⁾ Includes City-funded employee contributions. The annual pension cost (the "APC") is equal to the annual required contribution plus an adjustment for the cumulative difference between the APC and the City's actual plan contributions for the year. The cumulative difference is called the net pension obligation. The City does not have a net pension obligation; its annual pension cost is equal to its annual required contribution.

Source: Audited Financial Statements for Fiscal Year 2015, Note 4.F.

AB 340, Public Employee Pension Reform Act of 2013 (PEPRA). On September 12, 2012, the California Governor signed Assembly Bill 340 ("AB 340"), which implements pension reform in California. Effective January 1, 2013, AB 340: (i) requires public retirement systems and their participating employers to share equally with employees the normal cost rate for such retirement systems; (ii) prohibits employers from paying employer-paid member contributions to such retirement systems for employees hired after January 1, 2013 who were not already enrolled in CalPERS; (iii) establishes a compulsory maximum non-safety benefit formula of 2.5% at age 67; (iv) defines final compensation as the highest average annual pensionable compensation earned during a 36-month period; and (v) caps pensionable income at a 2013 level of \$110,100 (\$132,120 for employees not enrolled in Social Security), subject to annual Consumer Price Index increases. Other provisions reduce the risk of the City incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit.

Pursuant to AB 340, the City established a new pension tier (2.0% at 67) for employees hired on or after January 1, 2013 who were not previously CalPERS members.

CalPERS Plan Actuarial Methods. The staff actuaries at CalPERS prepare annually an actuarial valuation which is typically delivered in October of each year, approximately 15 months following the valuation date (thus, the actuarial valuation dated October 2015 covered CalPERS' Fiscal Year ended June 30, 2014). The actuarial valuations express the City's required contribution rates in percentages of covered payroll, which percentages the City must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City's contribution rate derived from the actuarial valuation as of June 30, 2014 affects the City's Fiscal Year 2017 required contribution rate). CalPERS rules require the City to implement the actuary's recommended rates.

The annual actuarially required contribution rates consist of two components: the normal cost and the unfunded actuarial accrued liability ("UAAL"). The normal cost represents the actuarial present value of benefits that CalPERS will fund under the CalPERS plans that are attributed to the current year, and the

actuarial accrued liability (the “AAL”) represents the actuarial present value of benefits that CalPERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between actuarial value of assets on deposit at CalPERS and the present value of the benefits that CalPERS will pay under the CalPERS plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the expected rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that CalPERS will pay under the CalPERS plans to retirees and active employees upon their retirement and not as a fixed expression of the liability the City owes to CalPERS under its CalPERS plans.

In the June 30, 2014 actuarial valuation, the CalPERS actuary estimated the actuarial value of the assets (the “Actuarial Value”) of the CalPERS plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during that Fiscal Year equaled the assumed rate of return of 7.50%). The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies. As described below, these policies and actuarial assumptions have changed significantly in recent years and are expected to change or be modified further by CalPERS in the future. Certain significant recent changes in assumptions include the following:

1. On March 14, 2012, the CalPERS Board approved a change in the inflation assumption used in the actuarial assumptions used to determine employer contribution rates. This reduced the assumed investment return from 7.75% to 7.50%, reduced the long-term payroll growth assumption from 3.25% to 3.0%, and adjusted the inflation component of individual salary scales from 3.25% to a merit scale varying by duration of employment, an assumed annual inflation component of 3% and an annual production growth of 0.25%. Although the full impact of such changes is not yet clear, CalPERS has estimated that they could result in net increases in future contribution levels of approximately 1% to 2%.

2. On April 17, 2013, the CalPERS Board of Administration approved a plan: (i) to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process; and (ii) to replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. CalPERS’ Chief Actuary has stated that the revised approach provides a single measure of funded status and unfunded liabilities, less rate volatility in extreme years, a faster path to full funding and more transparency to employers such as the City about future contribution rates. These changes are expected to accelerate the repayment of unfunded liabilities of the City’s plans in the near term; the exact magnitude of the potential contribution rate increases is not known at this time, but may be significant. These changes will be reflected beginning with the June 30, 2014 actuarial valuation affecting contribution rates for Fiscal Year 2016 and thereafter. As a preliminary estimate, the City has currently budgeted for annual increases in its pension contributions of approximately 3% per year through Fiscal Year 2024.

3. On February 18, 2014, the CalPERS Board approved changes to actuarial assumptions and methods based upon a recently completed experience study. These changes include: moving from using smoothing of the market value of assets to obtain the actuarial value of assets to direct smoothing of employer contribution rates; increased life expectancy; changes to retirement ages (earlier for some groups and later for others); lower rates of disability retirement; and other changes.

4. On November 17, 2015, the CalPERS Board approved changes that could affect the assumed investment return rate in the future. In years in which CalPERS’ investment returns are more than 2% greater than forecast, the long-term assumed investment return rate will be reduced by a maximum of 0.25%. CalPERS estimates that this change will reduce the assumed investment return rate by approximately 1% (to 6.5%) within 20 years.

Reporting obligations under Governmental Accounting Standards Board Statement No. 68 (“GASB 68”) commenced with financial statements for Fiscal Year 2015. Under GASB 68, an employer reports the net pension liability, pension expense and deferred outflows/deferred inflows of resources (as such terms are described in the following paragraph) related to pensions in its financial statements as part of its financial position. As a result of this change in accounting standards, the City’s total net position attributable to the Water System decreased by approximately \$2,719,769 in Fiscal Year 2015, primarily due to a \$2,504,440 adjustment to the unrestricted net position balance as a result of the adoption of GASB 68.

The net pension liability is the plan’s total pension liability based on the Entry Age Normal Actuarial Cost Method less the plan’s fiduciary net position. The pension expense is the change in net pension liability from the previous fiscal year to the current fiscal year, less adjustments. Deferred outflows and deferred inflows of resources related to pensions are certain changes in total pension liability and fiduciary net position that are to be recognized in future pension expense. Under GASB 68, deferred inflows and deferred outflows of resources related to pensions are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year in which the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

GASB 68 is a change in accounting reporting standards, but it does not change the District’s CalPERS plan funding obligations.

Funded Status; UAAL. As of the most recent actuarial study dated June 30, 2014, the Miscellaneous Plans were 66.0% funded.

The City had an unfunded accrued liability of \$25,599,971 for its Miscellaneous Plans as of June 30, 2014, based on a market value of assets of \$49,753,237, as set forth in the most recent actuarial report prepared by CalPERS.

The following table sets forth the schedule of funding progress for the City’s Miscellaneous Plans. The employer contribution rate for Fiscal Year 2016 is 30.134% of annual covered payroll.

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	UAAL	Funded Ratio	Annual Covered Payroll
06/30/2011	\$64,706,927	\$45,539,395	\$19,167,532	70.4%	\$8,358,294
06/30/2012	67,126,262	46,891,536	20,234,726	69.9	8,146,799
06/30/2013	69,916,982	43,152,382 ⁽²⁾	26,764,600	61.7	8,097,337
06/30/2014	75,353,208	49,753,237	25,599,971	66.0	7,775,108

⁽²⁾ Beginning with the 6/30/2013 actual valuation, the actuarial value of assets equals the market value of assets.
Source: CalPERS Actuarial Report Dated October 2015, as of June 30, 2014.

For additional information relating to the City’s CalPERS Plan, see Note 4.F to the City’s financial statements set forth in Appendix A.

No Other Post-Employment Benefits

The City does not provide any other post-employment benefits to retired employees.

Budget Process

The City prepares and adopts a budget for each Fiscal Year. The budgeting process generally spans an eight-month timeframe beginning in November of each year and involves extensive coordination with all City departments. Prior to June 30 of each year, the City Manager submits to the City Council a proposed budget for the Fiscal Year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Prior to June 30, budgetary review sessions are conducted to obtain input from various City departments and the budget is legally enacted through the passage of a resolution. The City Council adopted the budget for Fiscal Year 2016 on August 19, 2015, with Fiscal Year 2015 appropriations continuing until the adoption of such budget.

City Insurance

The City is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City maintains property, liability and worker's compensation insurance through the Redwood Empire Municipal Insurance Fund ("REMIF"), a public entity risk pool that operating as a common risk management and insurance program for several Northern California municipalities. The City pays quarterly and annual premiums to the REMIF for its general insurance coverage. REMIF is self-sustaining for liability insurance through member premiums and reinsures through commercial companies for other coverage.

The REMIF cost sharing pool provides coverage between the City's deductible and \$500,000 (liability program) and \$1,000,000 (workers' compensation program). Losses in excess of the REMIF cost sharing pool limits are covered by REMIF through the California Joint Powers Risk Management Authority and commercial insurance policies. Loss limits are \$39,500,000 (liability), \$300,000,000 (property), \$21,245,000 (boiler and machinery), \$9,990,000 (automobile) and \$3,000,000 (workers' compensation), in each case per occurrence. Losses exceeding these limits are the responsibility of the City.

The City's deductibles are \$10,000 for worker's compensation, property and automobile losses and fidelity coverage, \$25,000 for liability losses, \$5,000 for boiler and machinery losses and \$100,000 or 5% of building value for earthquake and flood losses, in each case per occurrence. The City continues to carry commercial insurance for all other risks of loss, including employee health and accident, coverage of the municipal airport and bonding of certain employees and elected officials. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City's property damage insurance covers Water System treatment facilities, but Water System pipelines are not insured.

There can be no assurance that incurred losses of the City will be covered up to the amount of loss, if at all. See the caption "CERTAIN RISKS TO BONDHOLDERS—Natural Disasters."

For additional information relating to the City's insurance coverages, see Note 4.A to the City's financial statements set forth in Appendix A.

No Parity Obligations

Upon the prepayment of the 2005 Installment Sale Agreement and the State Loan as described under the caption "THE REFUNDING PLAN," the City will have no other obligations payable from Net Revenues

or secured by a pledge of Revenues on a parity with the obligation of the City to pay principal of and interest on the 2016 Bonds.

Seismic Considerations

The City is located in a seismically active region. Significant faults are located near the City. There is potential for destructive ground shaking during the occurrence of a major seismic event. In addition, land along fault lines may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure within the City.

Newer Water System facilities are designed to withstand earthquakes with minimal damage, as earthquake loads are taken into consideration in the design of project structures. The impact of lesser magnitude events is expected by the City to be temporary, localized and repairable. To date, no City facilities have suffered any significant earthquake damage.

The City maintains earthquake insurance on certain Water System facilities. However, there can be no assurance that coverage will be provided under such insurance in sufficient amounts to cover losses in the event of an earthquake. See the captions “—City Insurance” and “CERTAIN RISKS TO BONDHOLDERS—Natural Disasters.”

Financial Statements

Copies of the most recent audited financial statements of the City prepared by Davis Hammon & Co., Certified Public Accountants, Oroville, California (the “Auditor”) are attached as Appendix A hereto (the “Financial Statements”). The Auditor’s letter dated January 9, 2015 is set forth therein. The Financial Statements should be read in their entirety.

The Financial Statements are public documents and the City has not sought the approval of the Auditor to append the Financial Statements to this Official Statement. The Auditor has neither performed any post-audit review of the financial condition of the City nor reviewed or audited this Official Statement.

THE WATER SYSTEM OF THE CITY

General

In Fiscal Year 2015, the Water System supplied approximately 2,156 acre-feet of potable water through approximately 4,570 single-family residential and 1,151 multi-family residential and commercial (including governmental, landscape, fire service and other) connections. The Water System includes two alluvial wells adjacent to the Russian River and three active groundwater wells, facilities for the diversion of surface water from the Russian River, eight water tanks and reservoirs with a combined storage capacity of approximately 6.1 million gallons and approximately 60 miles of pipelines, including transmission lines ranging in size from 2 inches to 16 inches in diameter. The Water System’s average daily demand is approximately 2 million gallons per day (“MGD”), while the peak daily demand is approximately 4 MGD.

Water provided by the Water System is treated at the City’s Water Treatment Plant (the “Treatment Plant”) prior to delivery to customers. The Treatment Plant has a design capacity of between 5.0 and 5.5 MGD (depending upon the intake’s turbidity), with average daily flow of approximately 1.2 MGD. The treatment process includes chemical clarification by coagulation and flocculation and filtration. The water is then filtered and chlorinated before delivery to Water System customers. The Treatment Plant also includes a high capacity pumping station. The water delivered by the Water System meets all applicable State and federal drinking water and health standards.

Approximately 97% of the Water System is supplied by gravity, although three additional zones with small numbers of connections require booster pump stations.

Water Supply

The City's primary source of water is the Russian River, which flows from north to south near the City. The City diverts surface water from the Russian River and extracts water from two alluvial wells that are located adjacent to the Russian River. The City also extracts groundwater from three groundwater wells located within City boundaries. The City currently has rights to water stored in Lake Mendocino, which can be diverted from the East Fork of the Russian River, but has terminated the agreement pursuant to which such rights are held and does not expect to utilize this source in the future. The City also maintains interties to the water systems of certain neighboring water service providers that would enable the City to serve its customers in the event of a supply emergency.

Russian River. On January 25, 1954, the State Water Resources Control Board (the "SWRCB") issued Water Right Permit 12952 (Application 15704) (the "Permit"). The Permit grants the City a year-round right to divert Russian River underflow for municipal purposes at a rate not to exceed 20.0 cubic feet per second ("CFS"), which is approximately five times the City's current usage. The City also has a pre-1914 right to appropriate surface water from the Russian River at a rate of 2.8 CFS.

The City exercises its rights to the Russian River through two alluvial wells, Wells #3 and #5, that are located on the Russian River riverbank within City boundaries. Well #3 has a production capacity of approximately 300 gallons per minute ("GPM") and Well #5 has a production capacity of approximately 150 GPM. The Water System also includes facilities, known as the Ranney Collector, to divert surface water from the Russian River to the Treatment Plant. The Ranney Collector has a production capacity of approximately 3,200 GPM and is used in the dry season during times of low surface water turbidity.

Groundwater. The City's groundwater supply is obtained from three active groundwater wells with an average depth of approximately 250 feet. The City's wells, which are located on City-owned land within City boundaries, provide a combined capacity of approximately 1,800 GPM. The wells are located in the Ukiah Valley Groundwater Basin (the "Basin"), an unadjudicated groundwater basin. The State Department of Water Resources ("DWR") has estimated that the Basin holds a total of approximately 100,000 acre-feet of water in storage.

On September 16, 2014, the State Governor signed Assembly Bill No. 1739 and Senate Bill Nos. 1168 and 1319 (collectively, the Sustainable Groundwater Management Act, or "SGMA") into law. The SGMA constitutes a legislative effort to regulate groundwater on a Statewide basis. Under the SGMA, DWR designated groundwater basins in the State as high, medium, low or very low priority for purposes of groundwater management by January 31, 2015. By January 31, 2017, local groundwater producers must establish or designate an entity (referred to as a groundwater sustainability agency, or "GSA"), subject to DWR's approval, to manage each high and medium priority groundwater basin. Each GSA is tasked with submitting a groundwater sustainability plan for DWR's approval by January 31, 2020. Alternatively, groundwater producers can submit a groundwater management plan under Part 2.75 of the California Water Code or an analysis for DWR's review demonstrating that a groundwater basin has operated within its sustainable yield for at least 10 years. Such alternative plan must be submitted by January 31, 2017 and updated every five years thereafter.

GSAs must consider the interests of all groundwater users in the basin and may require registration of groundwater users, the installation of flow meters to measure groundwater extractions and annual reporting of extractions up to an amount specified in the groundwater sustainability plan. In addition, GSAs are authorized to impose spacing requirements on new wells, monitor, regulate and limit or condition groundwater production and establish production allocations among groundwater producers, among other powers. GSAs are authorized to impose fees to fund such activities and to fine or issue cease and desist orders against producers that violate

the GSA's regulations. Groundwater sustainability plans must include sustainability goals and a plan to implement such goals within 20 years.

The Basin has been designated as a medium priority groundwater basin. Although a GSA has not been appointed for the Basin, the City currently anticipates that the County will ultimately become the GSA.

The City does not currently expect its groundwater extraction rights or costs in the Basin to change significantly as a result of the enactment of the SGMA. All of the City's groundwater wells are currently metered, as required by the SGMA.

No assurance can be provided as to whether or when a GSA will be appointed for any portion of the Basin. The City does not currently expect the enactment of the SGMA or the appointment of a GSA with respect thereto to have a material adverse effect on the City's ability to generate sufficient Net Revenues to pay the 2016 Bonds.

Lake Mendocino. The Mendocino County Russian River Flood Control and Water Conservation Improvement District (the "District") holds a water rights permit that entitles the District to store and use up to 8,000 acre feet of water in Lake Mendocino, which is located approximately five miles from the City. In 2004, the City and the District entered into an agreement (the "Water Supply Agreement") that allowed the City to use up to 800 acre-feet per year of the District's supply. The City's right to receive water was subject to a number of restrictions, including during times of drought. The City and the District have terminated the Water Supply Agreement, and the City anticipates that such termination will become effective in spring 2016. The City does not expect to divert water by agreement with the District in the future and believes that its water supply from the Russian River and groundwater wells is sufficient to meet the demands of its customers.

Drought Measures

State Orders. On January 17, 2014, the State Governor declared a drought state of emergency (the "Declaration") with immediate effect. The Declaration includes the following orders, among others: (a) local urban water suppliers, including the City, are encouraged to implement their local water shortage contingency plans; the City's plan is discussed under the caption "—City Response to Drought;" (b) local urban water suppliers, including the City, are encouraged to update their urban water management plans to prepare for extended drought conditions; (c) DWR and the SWRCB are directed to expedite the processing of water transfers; (d) the SWRCB is directed to put water rights holders on notice that they may be required to cease or reduce water diversions in the future; (e) the SWRCB is directed to consider modifying requirements for reservoir releases or diversion limitations; and (f) DWR is directed to take necessary actions to protect water quality and supply in the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (the "Bay-Delta"), including the installation of temporary barriers or temporary water supply connections, while minimizing impacts to aquatic species. In addition, on July 15, 2014, the SWRCB adopted emergency measures requiring water suppliers to implement mandatory Statewide water conservation actions.

On March 17, 2015, the SWRCB adopted additional emergency regulations limiting outdoor irrigation to two days per week, extending certain measures set forth in the July 15, 2014 action for an additional 270 days, prohibiting outdoor irrigation for 48 hours following rain and prohibiting restaurants from serving water to customers unless requested. It is anticipated that the City will comply with these regulations through its Water Shortage Contingency Plan (the "Drought Plan"), as discussed under the caption "—City Response to Drought."

On April 1, 2015, the Governor issued an executive order extending the measures set forth in the Declaration and adopting the following additional orders, among others: (i) the SWRCB is directed to impose restrictions to reduce potable urban water usage, including usage by commercial, industrial and institutional properties and golf courses, by 25% from 2013 amounts through February 28, 2016; portions of a water supplier's service area with higher per capita use must achieve proportionally greater reductions than areas

with lower per capita use; (ii) DWR is directed to lead a statewide initiative to replace 50 million square feet of lawns with drought tolerant landscaping; (iii) the California Energy Commission is directed to implement a rebate program for replacement of inefficient appliances; (iv) urban water suppliers are required to provide monthly water usage, conservation and enforcement information; (v) service providers are required to monitor groundwater basin levels in accordance with California Water Code § 10933; (vi) permitting agencies are required to prioritize approval of water infrastructure and supply projects; and (vii) DWR is required to plan salinity barriers in the Bay-Delta.

On May 6, 2015, the SWRCB adopted regulations in response to the Governor's executive order that require the City to effect a 20% reduction from 2013 water usage. On November 13, 2015, the Governor issued Executive Order B-36-15, which calls for an extension of urban water use restrictions until October 31, 2016 should drought conditions persist through January 2016.

On February 2, 2016, the SWRCB extended its previous emergency regulations through October 2016 while making available credits and adjustments of up to 8% in urban water suppliers' conservation mandates based upon climate, water-efficient growth and investments in drought-resilient supply sources. The City is unable to determine at this time whether it will be eligible for any credits or adjustments. The SWRCB will review the February 2, 2016 regulations in May 2016 to determine whether to give urban water suppliers more flexibility based on updated water supply information through April 2016.

City Response to Drought. Under the Drought Plan, the City responds to water supply shortages in stages. Stage 1 of the Drought Plan, which is intended to reduce water usage by 10% to 20%, limits the following activities:

- The application of potable water to outdoor landscapes in a manner that causes runoff such that water flows onto adjacent property, non-irrigated areas, private and public walkways, roadways, parking lots or structures;
- Broadcast (non-drip) irrigation from sunup to sundown and more frequently than: (i) every other day; or (ii) more than four days per week and at a rate that causes ponding or puddling in the irrigated area, or drip irrigation at a rate that causes ponding or puddling in the irrigated area;
- The use of a hose that dispenses potable water to wash a motor vehicle, except where the hose is fitted with a shut-off nozzle or device attached to it that causes it to cease dispensing water immediately when not in use;
- The application of potable water to driveways and sidewalks; and
- The use of potable water in a fountain or other decorative water feature except where the water is part of a recirculating system.

Under Stage 2 of the Drought Plan, which is intended to reduce water usage by 20% to 35%, a 15% surcharge is imposed on water consumption rates and the following water uses are prohibited:

- Use of water from public hydrants for any purpose other than fire protection and/or prevention;
- Use of water through any meter when the consumer has been given two days' notice to repair one or more leaks and has failed to complete such repairs;
- Use of water by a golf course to irrigate any portion of its grounds except those areas designated as tees and greens, unless the City determines that any such use is nonessential;

- Use of water to irrigate grass, lawns, ground cover, shrubbery, vegetable gardens, trees or other outdoor vegetation unless drip irrigation is used;
- Use of water for the construction of any structure, including such use in dust control;
- Use of water to wash any sidewalk, walkways, driveway, street, parking lot, tennis court or other hard surfaced area by hosing or by otherwise direct use of water from faucets or other outlets;
- Use of water to wash any motor vehicle, trailer, airplane or boat by hosing or otherwise using water directly from a faucet or other outlet;
- Use of water to fill or refill any swimming pool; and
- Use of water to add to any swimming pool that is not equipped with and using a pool cover.

Stage 3 of the Drought Plan, which is intended to reduce water usage by 35% to 50%, imposes a 25% surcharge on water consumption rates and imposes additional restrictions on water usage. Stage 4 of the Drought Plan, which is intended to reduce water usage by 50% or more, imposes a 35% surcharge on water consumption rates and imposes additional restrictions on water usage.

The City is currently implementing Stage 1 of the Drought Plan. The City believes that such actions will enable it to reduce water usage by up to 20% from 2013 amounts in accordance with the regulations adopted by the SWRCB on May 6, 2015. To date, reductions in water usage by Water System customers have exceeded 33%.

In some cases, actions taken pursuant to the Declaration could result in additional water being made available to the City, while in other cases, actions taken pursuant to the Declaration could reduce water supplies. The City believes that implementation of the Drought Plan is likely to reduce water sales revenues in Fiscal Year 2016. While implementation of the Drought Plan in future years may result in lower water sales revenues, it is also likely to result in lower operating costs, in particular pumping and energy costs related to water production and delivery. The projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” reflect the implementation of the Drought Plan through the end of Fiscal Year 2020. The City does not believe that the implementation of the Drought Plan will have a material adverse effect on its ability to generate sufficient Net Revenues to pay the principal of and interest on the 2016 Bonds when due. See the Official Statement under the caption “SECURITY FOR THE 2016 BONDS—Limited Obligations Payable from Net Revenues.”

If a water shortage should arise, legal issues exist as to whether different California Water Code provisions should be invoked to require reasonable regulations for the allocation of water in time of shortage. Any curtailment that is accompanied by an increase in pumping charges or costs of diverting water from the Russian River could necessitate an increase in the City’s water rates to City customers. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.”

The Water System

Historic Water Production. The following table shows historic water production of the Water System for the five most recent Fiscal Years:

CITY OF UKIAH WATER SYSTEM Historic Water Production in Acre-Feet

<i>Fiscal Year</i>	<i>Russian River⁽¹⁾</i>	<i>Groundwater/ Lake Mendocino</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2011	1,531	1,382	2,918	N/A%
2012	1,827	1,543	3,370	15.49
2013	2,038	1,483	3,521	4.48
2014 ⁽²⁾	1,183	1,632	2,815	(20.05)
2015 ⁽²⁾	1,442	1,248	2,690	(4.44)

⁽¹⁾ Includes surface water diversions and extractions from alluvial wells. See the caption “—Water Supply—Russian River.”

⁽²⁾ Decreases in water production reflect water conservation measures and State orders relating to drought. See the caption “—Drought Measures.” See the caption “—Historic Water Sales Revenues” for historic water sales revenues in such years.

Source: City.

Historic Water Sales. The following table shows historic water sales of the Water System for the five most recent Fiscal Years:

CITY OF UKIAH WATER SYSTEM Historic Water Sales in Acre-Feet⁽¹⁾

<i>Fiscal Year</i>	<i>Residential Water Sales</i>	<i>Commercial/Other Water Sales</i>	<i>Total Water Sales</i>	<i>% Increase/ (Decrease)</i>
2011	1,582	1,027	2,608	N/A%
2012	1,705	1,102	2,808	7.67
2013	1,738	1,124	2,862	1.92
2014 ⁽²⁾	1,498	958	2,456	(14.19)
2015 ⁽²⁾	1,332	825	2,156	(12.21)

⁽¹⁾ Differences between water sales and water production set forth under the caption “—Historic Water Production” reflect Water System losses, evaporation, unbilled water use, fire hydrant testing and fire hydrant use in emergencies.

⁽²⁾ Decreases in water production reflect water conservation measures and State orders relating to drought. See the caption “—Drought Measures.” See the caption “—Historic Water Sales Revenues” for historic water sales revenues in such years.

Source: City.

Historic Water System Connections. The following table shows historic billed connections to the Water System for the five most recent Fiscal Years:

**CITY OF UKIAH WATER SYSTEM
Historic Water System Connections⁽¹⁾**

<i>Fiscal Year</i>	<i>Residential Connections</i>	<i>Commercial/Other Connections</i>	<i>Total Connections</i>	<i>% Increase/ (Decrease)</i>
2011	4,511	1,130	5,641	N/A%
2012	4,533	1,141	5,674	5.85
2013	4,533	1,141	5,674	0.00
2014	4,556	1,143	5,699	0.44
2015	4,570	1,151	5,721	0.39

Source: City.

Historic Water Sales Revenues. The following table shows historic water sales revenues of the Water System for the five most recent Fiscal Years. Increases in water revenues reflect the five-year rate increases adopted in 2010. See the caption “—Water System Rates and Charges—General.”

**CITY OF UKIAH WATER SYSTEM
Historic Water Sales Revenues**

<i>Fiscal Year</i>	<i>Residential Water Sales Revenues</i>	<i>Commercial/Other Water Sales Revenues</i>	<i>Total Water Sales Revenues</i>	<i>% Increase/ (Decrease)</i>
2011	\$2,413,867	\$1,609,244	\$4,023,111	N/A%
2012	2,937,127	1,958,084	4,895,211	21.68
2013	3,418,379	2,278,919	5,697,298	16.39
2014	3,561,222	2,374,148	5,935,370	4.18
2015 ⁽¹⁾	3,390,067	2,167,420	5,557,487	(6.37)

⁽¹⁾ Reflects unaudited actual Fiscal Year 2015 amounts. Decrease reflects reduced water use as a result of mandatory conservation orders in light of Statewide drought. See the caption “—Drought Measures.”

Source: City.

Projected Water Production. The following table shows projected water production of the Water System for the current and next four Fiscal Years:

**CITY OF UKIAH WATER SYSTEM
Projected Water Production in Acre-Feet**

<i>Fiscal Year</i>	<i>Russian River⁽¹⁾</i>	<i>Groundwater</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2016	1,447	1,184	2,630	(2.23)%
2017	1,541	1,261	2,801	6.50
2018	1,641	1,342	2,983	6.50
2019	1,699	1,390	3,089	3.55
2020	1,708	1,397	3,105	0.52

Source: City.

Projected Water Sales. The following table shows projected water sales of the Water System for the current and next four Fiscal Years:

CITY OF UKIAH WATER SYSTEM
Projected Water Sales in Acre-Feet⁽¹⁾

<i>Fiscal Year</i>	<i>Residential Water Sales</i>	<i>Commercial/Other Water Sales</i>	<i>Total Water Sales⁽¹⁾</i>	<i>% Increase/ (Decrease)</i>
2016	1,372	915	2,287	6.08%
2017	1,462	974	2,436	6.52
2018	1,556	1,038	2,594	6.49
2019	1,612	1,074	2,686	3.55
2020	1,620	1,080	2,700	0.52

⁽¹⁾ Differences between water sales and water production set forth under the caption “—Projected Water Production” reflect Water System losses, evaporation, unbilled water use, fire hydrant testing and fire hydrant use in emergencies.

Source: City.

Projected Water System Connections. The following table shows projected billed connections to the Water System for the current and next four Fiscal Years:

CITY OF UKIAH WATER SYSTEM
Projected Water System Connections

<i>Fiscal Year</i>	<i>Residential Connections</i>	<i>Commercial/Other Connections</i>	<i>Total Connections</i>	<i>% Increase/ (Decrease)</i>
2016	4,570	1,151	5,721	0.00%
2017	4,616	1,163	5,779	1.01
2018	4,662	1,174	5,836	0.99
2019	4,708	1,186	5,894	0.99
2020	4,756	1,198	5,954	1.02

Source: City.

Projected Water Sales Revenues. The following table shows projected water sales revenues of the Water System for the current and next four Fiscal Years:

CITY OF UKIAH WATER SYSTEM
Projected Water Sales Revenues

<i>Fiscal Year</i>	<i>Residential Water Sales Revenues</i>	<i>Commercial/Other Water Sales Revenues</i>	<i>Total Water Sales Revenues</i>	<i>% Increase/ (Decrease)</i>
2016	\$3,353,938	\$2,235,959	\$5,589,897	0.58%
2017	3,598,200	2,398,800	5,997,000	7.28
2018	3,840,600	2,560,400	6,401,000	6.74
2019	4,038,000	2,692,000	6,730,000	5.14
2020	4,177,800	2,785,200	6,963,000	3.46

Source: City.

Projected water sales revenues assume continued drought conditions and the continued implementation of the City’s Drought Plan through the end of Fiscal Year 2020, the projected Water System connections set forth under the caption “—Projected Water System Connections” and adoption of the projected

rate increases described under the caption “—Water System Rates and Charges—General.” See the caption “CERTAIN RISKS TO BONDHOLDERS—Accuracy of Assumptions.”

Largest Water System Customers

The following table sets forth the ten largest customers of the Water System of the City (other than the City itself) as of June 30, 2015, as determined by the amount of their respective payments.

CITY OF UKIAH WATER SYSTEM Largest Water System Customers—Fiscal Year 2014-15

<i>Customer</i>	<i>Revenues</i>	<i>Hundred Cubic Feet Purchased</i>	<i>% of Total⁽¹⁾</i>
Ukiah Golf Course	\$165,993	56,070	2.99%
Ukiah Unified School District	148,851	47,438	2.68
Manor Oaks Mobile Estates	121,467	12,059	2.19
County of Mendocino	36,088	11,802	0.65
Mendocino Brewing Company	34,772	11,320	0.63
Russian River Cemetery District	34,728	10,354	0.62
Orchard Manor Apartments	33,312	11,451	0.60
Todd Grove Park City	29,314	8,371	0.53
Home Depot	19,885	7,980	0.36
Walmart	<u>19,159</u>	<u>7,489</u>	<u>0.34</u>
TOP TEN TOTAL	\$643,569	184,334	11.59%

⁽¹⁾ Percentage of total Water System Revenues.
Source: City.

These ten customers accounted for approximately 11.59% of total water sales revenues of \$5,557,487 for Fiscal Year 2015.

Water System Rates and Charges

General. Water System Revenues are derived from water sales (consumption charges) and fixed charges. Fixed charges are dependent on a customer’s meter size.

The City Council has rate setting authority and the City’s rates are not subject to review or approval by the California Public Utilities Commission or any other agency. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218” for a discussion of certain limitations of the rate setting authority of the City Council.

On July 1, 2010, the City adopted five-year rate increases for the Water System in compliance with the notice, hearing and protest provisions of Proposition 218. Water rates effective July 1, 2014 are set forth below.

CITY OF UKIAH WATER SYSTEM Water Consumption Rate Per Hundred Cubic Feet

	<i>Zone</i>			
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<i>Rate per Hundred Cubic Feet</i>	\$2.73	\$2.73	\$2.73	\$2.73

Water System customers also pay a fixed monthly charge that varies depending upon meter size, as set forth below. Most residential customers have a 1” or smaller diameter meter.

**CITY OF UKIAH WATER SYSTEM
Fixed Water Charges by Meter Size**

<i>Meter Size</i>	<i>Bimonthly Fixed Rate</i>
0.75”	\$ 32.25
1”	54.81
1.5”	106.40
2”	170.88
3”	322.41
4”	538.45
6”	1,073.66
Fire Service 2”	34.18
Fire Service 3”	64.48
Fire Service 4”	107.69
Fire Service 6”	214.72

Source: City.

In 2015, the City engaged The Reed Group, Inc. (the “Consultant”) to prepare a water rate study (the “Rate Study”) analyzing the Water System’s capital needs and current rate structure. Although the Rate Study has not yet been completed, the Consultant is expected to recommend that the City adopt water rate increases of approximately 3% per annum beginning in spring 2016. The projected water sales revenues set forth under the caption “—The Water System—Projected Water Sales Revenues” reflect projected water rate increases of approximately 3% per annum in Fiscal Years 2017 through 2020 in accordance with the Rate Study. All water rate increases are subject to the notice, hearing and protest provisions of Proposition 218 described under the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” There can be no assurance that the City Council will adopt additional rate increases in the future. However, the City has covenanted to set rates and charges in amounts that are expected to be sufficient to pay debt service while the 2016 Bonds are outstanding. See the caption “SECURITY FOR THE 2016 BONDS—Rate Covenant.”

Comparative Water Rates. Set forth below is a schedule of estimated comparative water rates for the City and water service providers located near the City effective as of January 1, 2016. Because each service provider has a different rate structure, an average monthly water bill was calculated based on 11 hundred cubic feet of usage per single family residence per month.

CITY OF UKIAH WATER SYSTEM Comparative Water Rates

<i>Water Service Provider</i>	<i>Average Monthly Water Charge⁽¹⁾</i>
City of Fort Bragg	\$82.00
City of Healdsburg	68.00
City of Cloverdale	63.00
City of Ukiah	62.28
Millview County Water District	61.00
Rogina Water Company	58.00

⁽¹⁾ Estimated for service providers other than the City. Charge applicable to ¾" meter.
Source: Reed Group, Inc. Water Rate Study.

Collection Procedures. All charges for water service are billed monthly on a consolidated basis with sewer, solid waste and electric service. If payment is not received 36 days after billing, a late charge of \$5.00 is assessed and a delinquent bill is sent allowing 10 more days for payment. If payment is not received after such period, a final notice of non-payment is sent and another \$5.00 late charge is assessed allowing an additional 7 days for payment. A 48 hour shut-off notice will be hand delivered the next working day after the due date of the final notice. If payment is not received within such 48 hour period, electric service is shut off. Service is not restored until all charges, including a reconnection fee of \$25.00, has been paid in full. An additional deposit may be required. After 10 days of non-payment all services, including water, are shut-off and the account is closed.

Currently, approximately 10% of water accounts are delinquent in the total amount of approximately \$46,312. The City reports that most customers pay delinquent bills prior to shut-off

Future Water System Improvements

The City projects capital improvements to the Water System of approximately \$15,370,000 over the current and next four Fiscal Years, including pipeline improvements, the development of an additional groundwater well, the rehabilitation of an existing well, improvements to existing wells and the Treatment Plan, water meter upgrades and other improvements. The City currently projects funding such capital improvements through a combination of grants, Net Revenues remaining after payment of the 2016 Bonds and Water System reserves. The City does not expect to issue additional Bonds or enter into additional Contracts to finance such improvements in the current or next four Fiscal Years.

Water System Reserves

The City maintains an operating reserve equal to 25% of annual Operation and Maintenance Costs and debt service of the Water System. The operating reserve provides working capital and funds for unplanned operation and maintenance expenditures. As of January 1, 2016, approximately \$1,001,000 was held in the operating reserve.

The City also maintains a rate stabilization reserve equal to 50% of annual Operation and Maintenance Costs of the Water System. The rate stabilization reserve provides a source of available funds in the event of a drought or other emergency. As of January 1, 2016, approximately \$1,480,000 was held in the rate stabilization reserve.

The Rate Study discussed under the caption “—Water System Rates and Charges—General” recommends the creation of an additional reserve: a water connection fee fund. The City is currently exploring whether to establish such fund.

Historic Water System Operating Results and Debt Service Coverage

The following table is a summary of operating results of the Water System for the last five Fiscal Years. These results have been derived from the Financial Statements and audited financial statements of the City for prior Fiscal Years but exclude certain non-cash items and include certain other adjustments. The table has not been reviewed or audited by the Auditor.

CITY OF UKIAH WATER SYSTEM Historic Water System Operating Results and Debt Service Coverage Fiscal Year Ended June 30

	2011	2012	2013	2014	2015 ⁽¹⁾
Revenues					
Water Service Charges ⁽²⁾	\$4,036,531	\$4,935,691	\$5,710,278	\$5,997,957	\$5,576,979
Interest Earnings	25,469	2,359	33,497	56,550	45,845
Miscellaneous Revenues ⁽³⁾	<u>3,226</u>	<u>-</u>	<u>103,421</u>	<u>8,718</u>	<u>2,148</u>
Total Revenues	\$4,065,226	\$4,938,050	\$5,847,196	\$6,063,225	\$5,624,972
Operation and Maintenance Costs					
City Administration	\$ 672,782	\$ 614,070	\$ 707,455	\$ 708,320	\$ 983,373
Operations and Maintenance ⁽⁴⁾	<u>1,362,088</u>	<u>1,560,178</u>	<u>1,739,054</u>	<u>1,779,625</u>	<u>1,855,345</u>
Total Operation and Maintenance Costs	\$2,034,870	\$2,174,248	\$2,446,509	\$2,487,945	\$2,838,718
Net Revenues	\$2,030,356	\$2,763,802	\$3,400,687	\$3,575,280	\$2,786,254
Debt Service					
State Loan ⁽⁵⁾	\$ 180,958	\$ 180,320	\$ 181,407	\$ 180,305	\$ 182,036
2005 Installment Purchase Agreement ⁽⁵⁾	<u>887,123</u>	<u>884,523</u>	<u>876,623</u>	<u>873,423</u>	<u>874,548</u>
Total Debt Service	\$1,068,081	\$1,064,843	\$1,058,030	\$1,053,728	\$1,056,584
Debt Service Coverage ⁽⁶⁾	1.90	2.60	3.21	3.39	2.64
Remaining Revenues ⁽⁷⁾	\$ 962,275	\$1,698,959	\$2,342,657	\$2,521,552	\$1,729,670

⁽¹⁾ Reflects unaudited actual Fiscal Year 2015 amounts. Decrease in water sales revenues reflects effect of reduced water sales resulting from the Statewide drought and related State orders. See the caption “—Drought Measures.”

⁽²⁾ Differs from historic water sales revenues set forth under the caption “—The Water System—Historic Water Sales Revenues” because includes fire line service charges, penalties and other water service revenues.

⁽³⁾ Includes connection fees.

⁽⁴⁾ Includes production, distribution, meter reading and other Water System Operation and Maintenance Costs.

⁽⁵⁾ This obligation is being prepaid from proceeds of the 2016 Bonds. See the caption “REFUNDING PLAN.”

⁽⁶⁾ Net Revenues divided by Total Debt Service.

⁽⁷⁾ Net Revenues less Total Debt Service.

Source: City.

Projected Water System Operating Results and Debt Service Coverage

The estimated projected operating results for the Water System of the City for the current and next four Fiscal Years are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected Water System financial results based upon its judgment of the most probable occurrence of certain important future events. The projections of Revenues reflect continued drought restrictions and the City's estimates of water use set forth under the caption "—The Water System—Projected Water Sales" and the projected water rate increases described under the caption "—Water System Rates and Charges—General." All water rate increases are subject to the notice, hearing and protest provisions of Proposition 218 described under the caption "CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES—Proposition 218: Article XIIC and Article XIID." There can be no assurance that the City Council will adopt additional rate increases as currently projected.

The assumptions set forth herein and in the footnotes to the chart below are material in the development of the financial projections of the City, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See the caption "BONDOWNERS' RISKS—Accuracy of Assumptions."

CITY OF UKIAH WATER SYSTEM Projected Water System Operating Results and Debt Service Coverage Fiscal Year Ending June 30

	2016 ⁽¹⁾	2017	2018	2019	2020
Revenues					
Water Service Charges ⁽²⁾	\$5,589,897	\$5,997,000	\$6,401,000	\$6,730,000	\$6,963,000
Interest Earnings ⁽³⁾	24,800	27,200	20,600	22,700	17,300
Miscellaneous Revenues ⁽⁴⁾	<u>28,671</u>	<u>29,500</u>	<u>30,400</u>	<u>31,300</u>	<u>32,200</u>
Total Revenues	\$5,643,368	\$6,053,700	\$6,452,000	\$6,784,000	\$7,012,500
Operation and Maintenance Costs					
City Administration ⁽⁵⁾	\$1,115,183	\$1,148,600	\$1,183,000	\$1,218,500	\$1,255,100
Operations and Maintenance ⁽⁶⁾	<u>1,838,441</u>	<u>1,970,800</u>	<u>2,114,100</u>	<u>2,229,500</u>	<u>2,308,000</u>
Total Operation and Maintenance Costs	\$2,953,624	\$3,119,400	\$3,297,100	\$3,448,000	\$3,563,100
Net Revenues	\$2,689,744	\$2,934,300	\$3,154,900	\$3,336,000	\$3,449,400
Debt Service					
State Loan ⁽⁷⁾	\$ 182,000	\$ -	\$ -	\$ -	\$ -
2005 Installment Purchase Agreement ⁽⁷⁾	870,000	-	-	-	-
2016 Bonds *	<u>-</u>	<u>928,544</u>	<u>930,069</u>	<u>928,494</u>	<u>926,469</u>
Total Debt Service *	\$1,052,000	\$ 928,544	\$ 930,069	\$ 928,494	\$ 926,469
Debt Service Coverage ^{(10)*}	2.56	3.16	3.39	3.60	3.72
Remaining Revenues ^{(11)*}	\$1,637,744	\$2,005,756	\$2,224,831	\$2,407,506	\$2,522,931

⁽¹⁾ Reflects projected Fiscal Year 2016 results set forth in the Rate Study. See the caption "—Water System Rates and Charges—General."

⁽²⁾ Reflects projected rate increases of approximately 3% per annum in Fiscal Years 2017 through 2020 that have not yet been adopted. There can be no assurance that the City Council will adopt such rate increases as currently projected. All water rate increases are subject to the notice, hearing and protest provisions of Proposition 218 described under the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

⁽³⁾ Projected at 0.5% on Water System reserves in Fiscal Years 2016 and 2017 and at 0.75% on Water System reserves thereafter.

* Preliminary; subject to change.

- (4) Includes connection fees. Projected to increase approximately 3% per annum from Fiscal Year 2016 budgeted amount.
- (5) Projected to increase approximately 3% per annum from Fiscal Year 2016 budgeted amount.
- (6) Includes production, distribution, meter reading and other Water System Operation and Maintenance Costs. Projected to increase approximately 7% per annum from Fiscal Year 2016 budgeted amount in Fiscal Years 2017 and 2018, approximately 5.5% from Fiscal Year 2018 amount in Fiscal Year 2019 and approximately 3.5% per annum thereafter.
- (7) This obligation is being prepaid from proceeds of the 2016 Bonds. See the caption "REFUNDING PLAN."
- (8) Net Revenues divided by Total Debt Service.
- (9) Net Revenues less Total Debt Service.

Source: City.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the California Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 State fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if: (i) the financial responsibility for a service is transferred to another public entity or to a private entity; (ii) the financial source for the provision of services is transferred from taxes to other revenues; or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by or for the State or other entity of local government, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment, insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from: (a) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost reasonably borne by the entity in providing the service or regulation); and (b) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit, including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by a vote of electors of the issuing entity and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the provision of existing services more costly.

The City is of the opinion that its charges for Water Service do not exceed the costs that it reasonably bears in providing such service and therefore are not subject to the limits of Article XIII B. The City has covenanted in the Indenture that it will, at all times while any of the 2016 Bonds remain unpaid, to the fullest extent permitted by law, fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water Service that are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (which, when calculated for purposes of the foregoing covenant, do not include amounts transferred from the Rate Stabilization Fund pursuant to the Indenture that are in excess of 20% of Debt Service for such Fiscal Year) equal to 120% of Debt Service for such Fiscal Year. See the caption "SECURITY FOR THE 2016 BONDS—Rate Covenant."

Proposition 218

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the

Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIIIID. Article XIIIID defines the terms “fee” and “charge” to mean “any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIIIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIIIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a “fee” or “charge” as defined in Article XIIIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

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

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was generally believed that Article XIIIID did not apply to charges for water services that are “primarily based on the amount consumed” (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the “*Bighorn Case*”), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218. The City has complied with the notice and public hearing requirements of Article XIIIID in determining whether to change Water System rates and charges since ____.

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal. App. 4th 1493 (2015) (the “*SJC Case*”) upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The City’s water rates, which are described under the caption “THE WATER SYSTEM OF THE CITY—System Rates and Charges,” do not currently include tiered rates based on usage. The City does not currently expect the decision in the *SJC Case* to affect its water rate structure. The City believes that its current water rates comply with the requirements of Proposition 218 and expects that any future water rate increases will comply with Proposition 218’s procedural and substantive requirements to the extent applicable thereto.

Article XIIC. Article XIIC provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of

initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIIIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIIID referred to above were applicable to Article XIIIIC. Moreover, the provisions of Article XIIIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the State Supreme Court held in the *Bighorn* Case that the provisions of Article XIIIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the City does not believe that Article XIIIIC grants to the voters within the City the power to repeal or reduce rates and charges for the Water Service in a manner which would be inconsistent with the contractual obligations of the City. However, there can be no assurance of the availability of particular remedies adequate to protect the Beneficial Owners of the 2016 Bonds. Remedies available to Beneficial Owners of the 2016 Bonds in the event of a default by the City are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. So long as the 2016 Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the 2016 Bonds and the rights and remedies of the 2016 Bond Owners will be exercised through the procedures of DTC.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2016 Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix C), will be similarly qualified.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIIC of the California Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (b) 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 costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 applies to charges imposed or increased after November 2, 2010 and provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. The City believes that its water rates and charges are not taxes under Proposition 26.

Future Initiatives

Articles XIIIB, XIIIIC and XIIID and Proposition 26 were adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiatives could be proposed and adopted affecting the City’s revenues or ability to increase revenues.

CERTAIN RISKS TO BONDHOLDERS

The following information should be considered by prospective investors in evaluating the 2016 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations may be relevant to making an investment decisions with respect to the 2016 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

The obligation of the City to pay the 2016 Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Revenues. The obligation of the City to pay the 2016 Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Accuracy of Assumptions

To estimate the revenues available to pay Debt Service on the 2016 Bonds, the City has made certain assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with operating the Water System and the interest rate at which funds will be invested. The City believes these assumptions to be reasonable, but to the extent that any of these assumptions fail to materialize, the Net Revenues available to pay Debt Service on the 2016 Bonds will, in all likelihood, be less than those projected herein. See the caption “THE WATER SYSTEM OF THE CITY—Projected Water System Operating Results and Debt Service Coverage.” Projected Water System operating results assume the implementation of certain rate increases in future years; however, all such rate increases are subject to the substantive and procedural requirements of Proposition 218 and there can be no assurance that such rate increases will be adopted. See the caption “—Rate-Setting Process under Proposition 218.” The City may choose to maintain compliance with the rate covenant set forth in the Indenture in part by means of contributions from available reserves or resources. In such event, Net Revenues may generate amounts which are less than 1.20 times Debt Service in any given Fiscal Year. See the caption “SECURITY FOR THE 2016 BONDS—Rate Covenant.”

System Demand

There can be no assurance that the demand for Water Service will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the rate covenant. Demand for water services could be reduced as a result of hydrological conditions, conservation efforts (including in response to the current drought as described under the caption “THE WATER SYSTEM OF THE CITY—Drought Measures” or future droughts) and other factors.

System Expenses

There can be no assurance that the City’s expenses will be consistent with the descriptions in this Official Statement. Operation and Maintenance Costs may vary with labor costs (including costs related to pension liabilities), treatment costs, regulatory compliance costs and other factors. Increases in expenses could require an increase in rates or charges in order to comply with the rate covenant. See the caption “SECURITY FOR THE 2016 BONDS—Rate Covenant.”

Limited Recourse on Default

If the City defaults on its obligation to pay the principal of and interest on the 2016 Bonds, the Trustee has the right to declare the total unpaid principal of the 2016 Bonds, together with the accrued interest thereon to be immediately due and payable. 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 amounts due on the 2016 Bonds from Net Revenues.

Rate-Setting Process under Proposition 218

Proposition 218, which added Articles XIII C and XIII D to the California Constitution, affects the City's ability to maintain existing rates and impose rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net Revenues in the amounts required by the Indenture to pay the 2016 Bonds. The City believes that the current water rates approved by the City Council were effected under the public hearing and majority protest provisions of Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

Statutory and Regulatory Compliance

Laws and regulations governing the treatment and delivery of water are enacted and promulgated by federal, State and local government agencies. Compliance with these laws and regulations is and will continue to be costly, and, as more stringent standards are developed, such costs will likely increase.

Claims against the Water System for failure to comply with applicable laws and regulations could be significant. Such claims may be payable from assets of the Water System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the City may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the City. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the City to generate Net Revenues sufficient to pay the 2016 Bonds.

Natural Disasters

The occurrence of any natural disaster in the City, including, without limitation, fire, earthquake, landslide, high winds, drought or flood, could have an adverse material impact on the economy within the City, the Water System and the Net Revenues available for the payment of the 2016 Bonds. Portions of the Water System may be at risk of damage or destruction from wildfires or subject to unpredictable seismic activity.

The occurrence of natural disasters in the area of the Water System could result in substantial damage to the Water System which, in turn, could substantially reduce revenue generated by the Water System and affect the ability of the City to pay the 2016 Bonds. The City maintains liability insurance for the Water System and earthquake and property casualty insurance for certain portions of the Water System. See the caption "THE CITY OF UKIAH—City Insurance." However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers.

Furthermore, as described under the caption "THE CITY OF UKIAH—City Insurance," significant portions of the Water System, including pipelines, are not covered by property casualty insurance. Damage to such portions of the Water System as a result of natural disasters would result in uninsured losses to the City.

Limitations on Remedies

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues in amounts that are sufficient to pay principal of and interest on the 2016 Bonds may be adversely affected by actions and events that are outside of the control of the City or actions taken (or not taken) by voters, property

owners, taxpayers or persons obligated to pay assessments, fees and charges. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” Furthermore, the remedies available to the owners of the 2016 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition, usual equity principles may limit the specific enforcement under State law of certain remedies, as may 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 2016 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 because the Water System serves an essential public purpose.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Indenture 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 to be delivered by Bond Counsel concurrently with the issuance of the 2016 Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2016 Bonds will be similarly qualified. See Appendix C. In the event that the City fails to comply with its covenants under the Indenture or fails to pay principal of and interest on the 2016 Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the 2016 Bonds.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the 2016 Bonds, the City has covenanted in the Indenture to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2016 Bonds under Section 103 of the Code. Interest on the 2016 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such 2016 Bonds as a result of acts or omissions of the City in violation of this or other covenants in the Indenture applicable to the 2016 Bonds. The 2016 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 Indenture. See the caption “TAX MATTERS.”

Secondary Market

There can be no guarantee that there will be a secondary market for the 2016 Bonds or, if a secondary market exists, that the 2016 Bonds can be sold for any particular price. Occasionally, because of general market conditions, 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.

Parity Obligations

The Indenture permits the City to enter into Contracts or issue Bonds payable from Net Revenues on a parity with the 2016 Bonds, subject to the terms and conditions set forth therein. The entry into of Contracts or the issuance of Bonds could result in reduced Net Revenues available to pay the 2016 Bonds. The City has

covenanted to maintain Debt Service coverage of 120%, as further described under the caption “SECURITY FOR THE 2016 BONDS—Additional Indebtedness.”

Risks Associated with Bond Insurance

In the event that the City defaults in the payment of principal of or interest on the 2016 Bonds when due, the owners of the 2016 Bonds will have a claim under the Policy for such payments. See the caption “BOND INSURANCE.” In the event that the Insurer becomes obligated to make payments with respect to the 2016 Bonds, no assurance can be given that such event will not adversely affect the market for the 2016 Bonds. In the event that the Insurer is unable to make payment of principal of and interest on the 2016 Bonds when due under the Policy, the 2016 Bonds will be payable solely from Revenues and amounts held in certain funds and accounts established under the Trust Agreement, as described under the caption “SECURITY FOR THE 2016 BONDS.”

The long-term rating on the 2016 Bonds is dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. If the long-term ratings of the Insurer are lowered, such event could adversely affect the market for the 2016 Bonds. See the caption “RATINGS.”

Neither the City nor the Underwriter have made an independent investigation of the claims-paying ability of the Insurer, and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is being made by the City or the Underwriter in this Official Statement. Therefore, when making an investment decision with respect to the 2016 Bonds, potential investors should carefully consider the ability of the City to pay principal and interest on the 2016 Bonds, assuming that the Policy is not available for that purpose, and the claims-paying ability of the Insurer through final maturity of the 2016 Bonds.

So long as the Policy remains in effect and the Insurer is not in default of its obligations thereunder, the Insurer has certain notice, consent and other rights under the Indenture and will have the right to control all remedies in the event of a default under the Indenture. The Insurer is not required to obtain the consent of the owners of the 2016 Bonds with respect to the exercise of remedies. See Appendix B.

APPROVAL OF LEGAL PROCEEDINGS

The valid, legal and binding nature of the 2016 Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Bond Counsel. The form of such legal opinion is attached hereto as Appendix C and such legal opinion will be attached to each 2016 Bond. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by David Rapport, City Attorney, for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, for the Insurer by its counsel and for the Trustee by its counsel.

From time to time Bond Counsel represents the Underwriter on matters unrelated to the issuance of the 2016 Bonds or other City obligations.

LITIGATION

At the time of delivery of and payment for the 2016 Bonds, the City will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City, threatened against the City affecting the existence of the City or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2016 Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the 2016 Bonds, the Indenture, or any action of the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of

this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the 2016 Bonds or any action of the City contemplated by any of said documents, nor to the knowledge of the City, is there any basis therefor.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2016 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2016 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2016 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2016 Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2016 Bonds to assure that interest (and original issue discount) on the 2016 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2016 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016 Bonds. The City has covenanted to comply with all such requirements.

In the opinion of Bond Counsel, the difference between the issue price of a 2016 Bond (the first price at which a substantial amount of the 2016 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2016 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable 2016 Bond. The amount of original issue discount that accrues to the Beneficial Owner of a 2016 Bond is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The amount by which a 2016 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2016 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2016 Bond Owner's basis in the applicable 2016 Bond (and the amount of tax-exempt interest received with respect to the 2016 Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2016 Bond Owner realizing a taxable gain when a 2016 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016 Bond to the Owner. Purchasers of the 2016 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2016 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2016 Bonds might be affected as a result of such an audit of the 2016 Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not

change the Code (or interpretation thereof) subsequent to the issuance of the 2016 Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2016 Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2016 BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2016 BONDS OR THE MARKET VALUE OF THE 2016 BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2016 BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2016 BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2016 BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2016 BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2016 BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2016 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any 2016 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2016 Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 2016 Bonds and the accrual or receipt of interest (and original issue discount) on the 2016 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2016 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2016 Bonds.

Should interest (and original issue discount) on the 2016 Bonds become includable in gross income for federal income tax purposes, the 2016 Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A complete copy of the proposed opinion of Bond Counsel is set forth in Appendix C.

RATINGS

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), is expected to assign the 2016 Bonds the rating of "___" based upon the delivery of the Policy by the Insurer at the time of issuance of the 2016 Bonds. S&P is also expected to assign the 2016 Bonds the rating of "___" notwithstanding the delivery of the Policy.

There is no assurance that any credit rating given to the 2016 Bonds will be maintained for any period of time or that a rating may not be lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on

the market price of the 2016 Bonds. The ratings reflect only the views of S&P, and an explanation of the significance of such ratings may be obtained from S&P. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the City that is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

Neither the City nor the Underwriter makes any representation as to the Insurer's creditworthiness and no representation that the Insurer's credit rating will be maintained in the future. The rating agencies have previously taken action to downgrade the ratings of certain municipal bond insurers and have published various releases outlining the processes that they intends to follow in evaluating the ratings of financial guarantors. For some financial guarantors, the result of such evaluations could be a rating affirmation, a change in rating outlook, a review for downgrade or a downgrade. Potential investors are directed to the rating agencies for additional information on the applicable rating agencies' evaluations of the financial guaranty industry and individual financial guarantors, including the Insurer. See the caption "BOND INSURANCE" for further information relating to the Insurer.

UNDERWRITING

The 2016 Bonds will be purchased by Raymond James & Associates, Inc. (the "Underwriter") pursuant to a Bond Purchase Agreement, dated February __, 2016, by and between the City and the Underwriter (the "Purchase Contract"). Under the Purchase Contract, the Underwriter has agreed to purchase all, but not less than all, of the 2016 Bonds for an aggregate purchase price of \$_____ (representing the principal amount of the 2016 Bonds, less an Underwriter's discount of \$_____, plus/less a net original issue premium/discount of \$_____). The Purchase Contract provides that the Underwriter will purchase all of the 2016 Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2016 Bonds to certain dealers (including dealers depositing 2016 Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

CONTINUING DISCLOSURE UNDERTAKING

The City has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and Beneficial Owners of the 2016 Bonds to provide certain financial information and operating data relating to the City by not later than April 1 following the end of the City's Fiscal Year (currently its Fiscal Year ends on June 30) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2016, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix E. These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission.

[RESULTS OF CONTINUING DISCLOSURE COMPLIANCE REVIEW TO COME].

Except as disclosed in the prior paragraph, the City has not in the past five years failed to comply with any previous continuing disclosure undertaking in any material respect.

FINANCIAL ADVISOR

The District has retained Public Financial Management Inc., San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

FINANCIAL INTERESTS

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel and counsel to the Underwriter and the Trustee are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

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MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the 2016 Bonds.

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

CITY OF UKIAH

By: _____
City Manager

APPENDIX A
FINANCIAL STATEMENTS

APPENDIX B

DEFINITIONS AND SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of the provisions thereof.

[TO COME]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the 2016 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

February __, 2016

City of Ukiah
300 Seminary Avenue
Ukiah, California 95482

Re: City of Ukiah Water Revenue Refunding Bonds, Series 2016

Members of the City Council:

We have examined a certified copy of the record of the proceedings of the City of Ukiah (the "City") relative to the issuance of the \$_____ City of Ukiah Water Revenue Refunding Bonds, Series 2016 (the "2016 Bonds"), dated the date hereof, and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the City, the initial purchaser of the 2016 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2016 Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2016 (the "Indenture"), by and between the City and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The 2016 Bonds mature on the dates and in the amounts referenced in the Indenture. The 2016 Bonds are dated their date of delivery and bear interest at the rates per annum referenced in the Indenture. The 2016 Bonds are registered in the form set forth in the Indenture.

Based on our examination as Bond Counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. The proceedings of the City show lawful authority for the issuance and sale of the 2016 Bonds under the laws of the State of California now in force and the Indenture has been duly authorized, executed and delivered by the City. Assuming due authorization, execution and delivery by the Trustee, as appropriate, the 2016 Bonds and the Indenture are valid and binding obligations of the City enforceable against the City in accordance with their terms.

2. The obligation of the City to make the payments of principal of and interest on the 2016 Bonds from Net Revenues (as such term is defined in the Indenture) is an enforceable obligation of the City and does not constitute an indebtedness of the City in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2016 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the 2016 Bonds is exempt from State of California personal income tax.

5. The amount by which a 2016 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2016 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the 2016 Bond Owner's basis in the applicable 2016 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2016 Bond premium may result in a 2016 Bond Owner realizing a taxable gain when a 2016 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016 Bond to the Owner. Purchasers of the 2016 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

6. The difference between the issue price of a 2016 Bond (the first price at which a substantial amount of the 2016 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2016 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2016 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2016 Bond Owner will increase the 2016 Bond Owner's basis in the applicable 2016 Bond. The amount of original issue discount that accrues to the Owner of a 2016 Bond is excluded from the gross income of such 2016 Bond Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The opinions expressed herein as to the exclusion from gross income of interest on the 2016 Bonds are based upon certain representations of fact and certifications made by the City and are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2016 Bonds to assure that such interest (and original issue discount) on the 2016 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2016 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016 Bonds. The City has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement ends as of the date of issuance of the 2016 Bonds. The Indenture and the Tax Certificate relating to the 2016 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the 2016 Bonds for federal income tax purposes with respect to any 2016 Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2016 Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the 2016 Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the 2016 Bonds or other offering material relating to the 2016 Bonds and expressly disclaim any duty to advise the owners of the 2016 Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX D

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book entry only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2016 Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2016 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2016 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2016 Bonds. The 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2016 Bond will be issued for each annual maturity of the 2016 Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. 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 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2016 Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in 2016 Bonds, except in the event that use of the book entry system for the 2016 Bonds is discontinued.

To facilitate subsequent transfers, all 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2016 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2016 Bonds documents. For example, Beneficial Owners of 2016 Bonds may wish to ascertain that the nominee holding the 2016 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2016 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the 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 or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A 2016 Bond Owner shall give notice to elect to have its 2016 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2016 Bond by causing the Direct Participant to transfer the Participant's interest in the 2016 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2016 Bond in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2016 Bond are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered 2016 Bond to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2016 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, 2016 Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK ENTRY ONLY SYSTEM IS USED FOR THE 2016 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2016 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2016 Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Ukiah (the “City”) in connection with the issuance of the \$_____ City of Ukiah Water Revenue Refunding Bonds, Series 2016 (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2016 (the “Indenture”), by and between Wells Fargo Bank, National Association, as trustee (the “Trustee”) and the City. The City covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Bond Insurer and the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

Beneficial Owner. The term “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); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term “EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

Fiscal Year. The term “Fiscal Year” means the one-year period ending on the last day of June of each year.

Holder. The term “Holder” means a registered owner of the Bonds.

Listed Events. The term “Listed Events” means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term “Official Statement” means the Official Statement dated February __, 2016 relating to the Bonds.

Participating Underwriter. The term “Participating Underwriter” means Raymond James & Associates, Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

3. Provision of Annual Reports.

(a) The City shall provide not later than April 1 following the end of its Fiscal Year (commencing with Fiscal Year 2016) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the City is unable to provide to EMMA an Annual Report by the date required in subsection (a), the City shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

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

(a) The audited financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available;

(b) Principal amount of the Bonds outstanding;

(c) Number of connections to the Water System in the prior Fiscal Year, in substantially the form set forth in the Official Statement under the caption "THE WATER SYSTEM OF THE CITY—The Water System—Historic Water System Connections;"

(d) Water sales revenues, in substantially the form set forth in the Official Statement under the caption "THE WATER SYSTEM OF THE CITY—The Water System—Historic Water Sales Revenues;"

(e) Ten largest Water System customers, in substantially the form set forth in the Official Statement under the caption "THE WATER SYSTEM OF THE CITY—Largest Water System Customers;" and

(d) Summary of historical operating results (with debt service and coverage ratio shown), in substantially the form set forth in the Official Statement under the caption "THE WATER SYSTEM OF THE CITY—Historic Water System Operating Results and Debt Service Coverage."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the 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) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
2. modifications to the rights of Bond holders;
3. optional, unscheduled or contingent Bond redemptions;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and
7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

7. Termination of Obligation. The City's obligations 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 Listed Event under Section 5(a).

8. 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, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. 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 notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any the Bond Insurer or any Holders or Beneficial Owners of at least 50% aggregate principal amount of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under 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 this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Bond Insurer, 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.

Dated: March __, 2016

CITY OF UKIAH

By: _____
Its: City Manager

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Ukiah (the “City”) in connection with the issuance of the \$_____ City of Ukiah Water Revenue Refunding Bonds, Series 2016 (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2016 (the “Indenture”), by and between Wells Fargo Bank, National Association, as trustee (the “Trustee”) and the City. The City covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Bond Insurer and the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

Beneficial Owner. The term “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); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term “EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

Fiscal Year. The term “Fiscal Year” means the one-year period ending on the last day of June of each year.

Holder. The term “Holder” means a registered owner of the Bonds.

Listed Events. The term “Listed Events” means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term “Official Statement” means the Official Statement dated February __, 2016 relating to the Bonds.

Participating Underwriter. The term “Participating Underwriter” means Raymond James & Associates, Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

3. Provision of Annual Reports.

(a) The City shall provide not later than April 1 following the end of its Fiscal Year (commencing with Fiscal Year 2016) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the City is unable to provide to EMMA an Annual Report by the date required in subsection (a), the City shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

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

(a) The audited financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available;

(b) Principal amount of the Bonds outstanding;

(c) Number of connections to the Water System in the prior Fiscal Year, in substantially the form set forth in the Official Statement under the caption "THE WATER SYSTEM OF THE CITY—The Water System—Historic Water System Connections;"

(d) Water sales revenues, in substantially the form set forth in the Official Statement under the caption "THE WATER SYSTEM OF THE CITY—The Water System—Historic Water Sales Revenues;"

(e) Ten largest Water System customers, in substantially the form set forth in the Official Statement under the caption "THE WATER SYSTEM OF THE CITY—Largest Water System Customers;" and

(d) Summary of historical operating results (with debt service and coverage ratio shown), in substantially the form set forth in the Official Statement under the caption "THE WATER SYSTEM OF THE CITY—Historic Water System Operating Results and Debt Service Coverage."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the 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) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
2. modifications to the rights of Bond holders;
3. optional, unscheduled or contingent Bond redemptions;
4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

7. Termination of Obligation. The City's obligations 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 Listed Event under Section 5(a).

8. 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, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. 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 notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any the Bond Insurer or any Holders or Beneficial Owners of at least 50% aggregate principal amount of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under 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 this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Bond Insurer, 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.

Dated: March __, 2016

CITY OF UKIAH

By: _____
Its: City Manager



City of Ukiah Water Revenue Refunding Bonds, Series 2016

Attachment 7

FINANCING SCHEDULE As of December 22, 2015

NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH
S M T W T F S	S M T W T F S	S M T W T F S	S M T W T F S	S M T W T F S
1 2 3 4 5 6 7	1 2 3 4 5	1 2	1 2 3 4 5 6	1 2 3 4 5
8 9 10 11 12 13 14	6 7 8 9 10 11 12	3 4 5 6 7 8 9	7 8 9 10 11 12 13	6 7 8 9 10 11 12
15 16 17 18 19 20 21	13 14 15 16 17 18 19	10 11 12 13 14 15 16	14 15 16 17 18 19 20	13 14 15 16 17 18 19
22 23 24 25 26 27 28	20 21 22 23 24 25 26	17 18 19 20 21 22 23	21 22 23 24 25 26 27	20 21 22 23 24 25 26
29 30	27 28 29 30 31	24 25 26 27 28 29 30	28 29	27 28 29 30 31
		31		

City Council Meeting
 Holiday

Date	Activity	Responsible Party
Wed, Nov 18	Send Bond Counsel price bid request	FA
Wed, Nov 25	Receive Bond Counsel Proposals	FA, City
Week of Nov 23	Distribute Underwriter Proposal Summary	FA
Week of Nov 30	Meeting or Conference Call to review Bond Counsel and Underwriter Proposals	FA, City
Week of Dec 7	Finalize Bond Counsel and Underwriter	FA, City
Wed, Dec 16	City of Ukiah Council Meeting to approve new Bond Counsel and Underwriter	City
Tue, Dec 12	Kick-Off Call	All
Tue, Jan 5	Follow-up Call	All
Week of Jan 4	Circulate 1 st draft of Bond Documents and POS	BC/DC
Mon/Tue, Jan 11/12	Conference Call to review 1 st draft of Bond Documents and POS	ALL
Wed/Thu, Jan 13/14	Circulate 1 st draft of credit presentation	FA/UW
Tue, Jan 19	Circulate 2 nd draft of Bond Documents and POS	BC/DC
	Conference Call to review 1 st draft of credit presentation	ALL
Wed, Jan 20	Circulate 2 nd draft of credit presentation	FA/UW
Thu, Jan 21	Conference Call to review 2 nd draft of credit presentation	ALL
	Conference Call to review 2 nd draft of Bond Documents and POS	ALL
Review the January 27th target date and revise game plan if needed		
Mon/Tue, Jan 25/26	Distribute final drafts of Bond Documents and POS	BC/DC
	Submit credit package to rating agency	FA/UW
Week of Jan 25	Credit Rating Meetings/Calls	City/FA/UW



City of Ukiah

Water Revenue Refunding Bonds, Series 2016

FINANCING SCHEDULE

As of December 22, 2015

NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH
S M T W T F S	S M T W T F S	S M T W T F S	S M T W T F S	S M T W T F S
1 2 3 4 5 6 7	1 2 3 4 5	1 2	1 2 3 4 5 6	1 2 3 4 5
8 9 10 11 12 13 14	6 7 8 9 10 11 12	3 4 5 6 7 8 9	7 8 9 10 11 12 13	6 7 8 9 10 11 12
15 16 17 18 19 20 21	13 14 15 16 17 18 19	10 11 12 13 14 15 16	14 15 16 17 18 19 20	13 14 15 16 17 18 19
22 23 24 25 26 27 28	20 21 22 23 24 25 26	17 18 19 20 21 22 23	21 22 23 24 25 26 27	20 21 22 23 24 25 26
29 30	27 28 29 30 31	24 25 26 27 28 29 30	28 29	27 28 29 30 31
		31		

City Council Meeting
 Holiday

Date	Activity	Responsible Party
Wed, Jan 27	Submit Bond Documents and POS to City for Council meeting	BC/DC/City
Mon, Feb 1	Receive ratings?	
Tue, Feb 2	Final comments due on POS for posting	ALL
Wed, Feb 3	City of Ukiah Council Meeting to approve POS and bond documents	City/BC/DC
Thu, Feb 4	Print and post POS	DC/P
Week of Feb 8	Marketing	UW
Week of Feb 15	Pricing	City/FA/UW
Week of Feb 22	Print and post final OS Circulate closing documents for review	BC/DC/P
Week of Feb 29	Pre-Closing	ALL
	Closing and delivery of the Bonds	ALL

Role	Participant	Abbreviation
Issuer	City of Ukiah	City
Financial Advisor	Public Financial Management, Inc.	FA
Bond Counsel	Stradling Yocca Carlson & Rauth, P.C.	BC
Disclosure Counsel	Stradling Yocca Carlson & Rauth, P.C.	DC
Underwriter	Raymond James & Associates, Inc.	UW
Underwriter's Counsel	Nixon Peabody LLP	UC
Trustee/Escrow Agent	TBD	T
Printer	TBD	P