

\$55,000,000
STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS,
SERIES 2010A
(DELTA WATER SUPPLY PROJECT)

Dated: Date of Delivery**Due: October 1, 2040**

This cover page contains certain information for reference only. It is not a summary of this issue. This Official Statement provides information concerning the Series 2010A Bonds bearing interest at a Weekly Interest Rate only. Owners and Potential Owners of the Series 2010A Bonds should not rely on this Official Statement for information concerning the Series 2010A Bonds following conversion to a different Interest Rate Period but should look solely to the offering document to be used in connection with any such conversion. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The \$55,000,000 principal amount of Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the "Series 2010A Bonds") are being issued by the Stockton Public Financing Authority (the "Authority") to provide funds for: (i) designing, constructing, acquiring, and installing certain additions, betterments, extensions and improvements constituting a phase of the Delta Water Supply Project (the "Water Project") to the Water System (the "Water System") of the City of Stockton (the "City"); (ii) making deposits in the Reserve Fund established for the Series 2010A Bonds under the Indenture, dated as of October 1, 2010 (the "Indenture"), by and between the Authority and Wells Fargo Bank National Association, as trustee (the "Trustee") in the amount of the Reserve Requirement (as defined herein); (iii) funding interest on a portion of the Series 2010A Bonds through and until June 30, 2012; and (iv) paying certain costs associated with the issuance of the Series 2010A Bonds. See "THE SERIES 2010A BONDS."

The Series 2010A Bonds are being issued by the Authority pursuant to the Indenture. The Series 2010A Bonds are limited obligations of the Authority payable solely from installment payments (the "2010 Installment Payments") to be made by the City under an Installment Purchase Contract, dated as of October 1, 2010 (the "Installment Purchase Contract"), by and between the Authority and the City and certain amounts held under the Indenture. As security for the payment of the 2010 Installment Payments, the City has pledged revenues derived from the operation of the Water System remaining after the payment of operation and maintenance costs (the "Net System Revenues"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS."

The City has obligations outstanding that are secured by and payable from Net System Revenues on a parity with the 2010 Installment Payments (the "Existing Parity Obligations") as more fully described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS—Existing Parity Obligations." The 2010 Installment Payments are secured by and payable from Net System Revenues on a basis senior to the installment payments made by the City securing the Authority's outstanding \$18,575,000 principal amount of Water Revenue Bonds, Series 2009A (Delta Water Supply Project) and \$154,550,000 principal amount of Water Revenue Bonds, Taxable Build America Bonds, Series 2009A (Delta Water Supply Project) (together, the "2009 Bonds"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS—Subordinate Obligations."

The City may issue additional obligations payable from Net System Revenues on a parity with the 2010 Installment Payments, the Existing Parity Obligations and the Credit Facility Provider Reimbursement Obligations (defined herein). However, for so long as the 2009 Bonds are outstanding, the City has covenanted not to issue any additional Parity Obligations other than Parity Obligations issued in connection with the Series 2010A Bonds. The City may also issue additional obligations payable from the Net System Revenues on a basis subordinate to the 2010 Installment Payments, the Existing Parity Obligations and the Credit Facility Provider Reimbursement Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS—PARITY OBLIGATIONS" AND "—SUBORDINATE OBLIGATIONS."

The Series 2010A Bonds will initially bear interest at a Weekly Interest Rate. While in a Weekly Interest Rate, the interest rate on the Series 2010A Bonds will be determined weekly in the manner described herein. The Authority has named Citigroup Global Markets Inc. as the initial remarketing agent (the "Remarketing Agent") with respect to the Series 2010A Bonds. See "THE SERIES 2010A BONDS."

The Series 2010A Bonds are being issued in fully registered form in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof. When delivered, the Series 2010A Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of the Series 2010A Bonds, payment of principal of and interest on the Series 2010A Bonds will be made to Cede & Co. Purchasers will not receive Series 2010A Bonds representing their interest in the Series 2010A Bonds. DTC will act as securities depository for the Series 2010A Bonds. Individual purchases of the Series 2010A Bonds will be made in book-entry form only. See APPENDIX E—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Series 2010A Bonds are subject to optional and mandatory redemption and optional and mandatory tender prior to maturity as set forth herein.

THIS OFFICIAL STATEMENT DESCRIBES CERTAIN TERMS OF THE SERIES 2010A BONDS WHILE IN A WEEKLY INTEREST RATE PERIOD. THERE ARE SIGNIFICANT CHANGES IN THE TERMS OF THE SERIES 2010A BONDS IN THE DAILY INTEREST RATE PERIOD, SHORT-TERM INTEREST RATE PERIOD AND LONG-TERM RATE PERIOD. THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE SERIES 2010A BONDS IN A DAILY INTEREST RATE PERIOD, SHORT-TERM INTEREST RATE PERIOD AND LONG-TERM RATE PERIOD. OWNERS AND PROSPECTIVE PURCHASERS OF THE SERIES 2010A BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING THE SERIES 2010A BONDS IN CONNECTION WITH ANY CONVERSION OF THE SERIES 2010A BONDS, BUT SHOULD LOOK SOLELY AT THE OFFERING DOCUMENT TO BE USED IN CONNECTION WITH ANY SUCH CONVERSION.

The Series 2010A Bonds are supported initially by an irrevocable, transferable letter of credit (the "Letter of Credit"), being issued concurrently with the issuance of the Series 2010A Bonds by:



The Letter of Credit will permit the Trustee to draw, with respect to the Bonds, an amount sufficient to pay the principal of and accrued interest on the Series 2010A Bonds (at an assumed maximum rate of 12% per annum for 53 days). The Letter of Credit will be available to pay the Purchase Price of any Series 2010A Bonds tendered for purchase and not remarketed by the Remarketing Agent. The Letter of Credit will expire on October 18, 2013 unless terminated earlier or extended, as provided therein. See "THE BANK, THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."

THE SERIES 2010A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM 2010 INSTALLMENT PAYMENTS MADE BY THE CITY AND CERTAIN MONEYS HELD UNDER THE INDENTURE. THE SERIES 2010A BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, AND SHALL BE PAYABLE SOLELY FROM THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2010 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION PAYABLE SOLELY FROM THE NET SYSTEM REVENUES OF THE WATER SYSTEM AS PROVIDED IN THE INSTALLMENT PURCHASE CONTRACT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2010A BONDS. THE AUTHORITY HAS NO TAXING POWER. THE ISSUANCE OF THE SERIES 2010A BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE SERIES 2010A BONDS.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds. See "TAX MATTERS."

The Series 2010A Bonds are offered when, as and if issued, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed on for the Authority and the City by the City Attorney, for the Authority and the City by Lofton & Jennings, San Francisco, California, Disclosure Counsel, for the Underwriter by Stradling Yocca Carlson & Rauth, A Professional Corporation, Sacramento, California and for the Bank by Chapman and Cutler LLP, Chicago, Illinois. It is anticipated that the Series 2010A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about October 21, 2010.

CITI

\$55,000,000
STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS,
SERIES 2010A
(DELTA WATER SUPPLY PROJECT)

MATURITY SCHEDULE

The initial interest rate established by the Authority for the Series 2010A Bonds will apply to the period commencing on the date of issuance to and including the initial Rate Determination Date specified below. Thereafter, the Series 2010A Bonds will bear interest at a Weekly Interest Rate determined by the Remarketing Agent, as described herein, subject to certain conditions and exceptions. Interest on the Series 2010A Bonds will be payable on each Interest Payment Date. The initial Interest Payment Date and Rate Determination Date for the Series 2010A Bonds are set forth below. See “THE SERIES 2010A BONDS–Determination of Weekly Interest Rate.”

<u>Principal Amount</u>	<u>Maturity Date (October 1)</u>	<u>Initial Mode</u>	<u>Interest Payment Date</u>	<u>Initial Rate Determination Date</u>	<u>CUSIP No.†</u>
\$55,000,000	2040	Weekly	First Wednesday of each calendar month, commencing November 3, 2010	Tuesday, October 26, 2010	861398BA2

† Copyright 2010, American Bankers Association. CUSIP data herein is provided by Standard and Poor’s, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. None of the Authority, the City or the Underwriter takes any responsibility for the accuracy of such CUSIP numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2010A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2010A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Series 2010A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor shall it be construed as a representation of such by the Authority, the City or the Underwriter. The information and expressions of opinion stated herein are subject to change without notice; and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or in the condition of the Water System, since the date hereof.

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

The 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 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE SERIES 2010A BONDS TO CERTAIN DEALERS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES SET FORTH ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE SERIES 2010A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE SERIES 2010A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a website. Unless specifically indicated otherwise, the information presented on that website is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Series 2010A Bonds.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking” statements. Such statements are generally identifiable by the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions. The achievement of certain results or other expectations contained in such forward-looking statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. No assurance is given that actual results will meet the forecasts of the City in any way, regardless of the optimism communicated in the information, and such statements speak only as of the date of this Official Statement. The Authority and the City disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the expectations of the Authority and the City with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

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

Mayor Ann Johnston	<i>Chair and Mayor</i>
Katherine M. Miller	<i>Vice Chair and Vice Mayor, District 2</i>
Elbert H. Holman, Jr.	<i>Member and Councilmember, District 1</i>
Leslie Baranco Martin	<i>Member and Councilmember, District 3</i>
Diana Lowery	<i>Member and Councilmember, District 4</i>
Susan Talamantes Eggman	<i>Member and Councilmember, District 5</i>
Dale Fritchen	<i>Member and Councilmember, District 6</i>

CITY STAFF

Bob Deis, *City Manager*
John Luebberke, *City Attorney*
William Thomas, *Interim Chief Financial Officer*
Mark Madison, *Director of Municipal Utilities*
F. Michael Taylor, *City Auditor*
Katherine Gong Meissner, *City Clerk*

SPECIAL SERVICES

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP

DISCLOSURE COUNSEL

Lofton & Jennings
San Francisco, California

FINANCIAL ADVISOR

Del Rio Advisors, LLC
Modesto, California

BANK COUNSEL

Chapman and Cutler LLP
Chicago, Illinois

TRUSTEE, PAYING AGENT REGISTRAR AND TENDER AGENT

Wells Fargo Bank, National Association
San Francisco, California

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	Bonds, Without a Successor Being Named	17
General	1	SECURITY AND SOURCES OF PAYMENT	
Purpose	1	FOR THE SERIES 2010A BONDS	17
Security for the Series 2010A Bonds	2	Initial Letter of Credit	17
The Letter of Credit	2	Pledge of Net System Revenues	17
Remarketing Agent	3	Rate Covenant	19
Tender Agent and Trustee	3	Rate Stabilization Fund	19
Existing Parity Obligations	3	Deposit of Revenues	20
Outstanding Subordinate Debt	3	Reserve Fund	21
Continuing Disclosure	4	Parity Obligations	21
Bondowners Risks	4	Subordinate Obligations	23
Certain Information Related to this Official Statement	4	THE BANK, THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT	24
THE WATER PROJECT	5	The Bank	24
General	5	The Letter of Credit and Reimbursement Agreement	25
Description	5	BONDOWNERS' RISKS	28
Funding Sources	6	General	28
Status of Construction	8	Letter of Credit and the Reimbursement Agreement	28
Contractors and Schedule	8	Bankruptcy or Insolvency of the Credit Bank	29
Seismic Standards	9	Mandatory Tender or Acceleration Upon Default Under the Reimbursement Agreement	29
Water Rate and Financing Study	9	Proposition 218	30
ESTIMATED SOURCES AND USES OF FUNDS	10	System Expenses	32
THE SERIES 2010A BONDS	10	Limited Recourse on Default	32
General	10	Initiatives; Changes in Law	32
Determination of Weekly Interest Rate	11	Statutory and Regulatory Impact	33
Conversion from the Weekly Interest Rate Period	11	Risk of Earthquake and Other Natural Disasters	33
Optional and Mandatory Tenders for Purchase	12	Risk Management and Insurance	34
Redemption Provisions	14	Limitations on Remedies	35
SPECIAL CONSIDERATIONS RELATING TO THE SERIES 2010A BONDS	16	Loss of Tax Exemption on the Series 2010A Bonds	35
Remarketing Agent is Paid by the City	16	Risk of Tax Audit	36
Remarketing Agent Routinely Purchases Series 2010A Bonds for its Own Account	16	Secondary Market	36
Series 2010A Bonds May Be Offered at Different Prices on Any Date Including a Rate Determination Date	16	THE AUTHORITY	36
Ability to Sell the Series 2010A Bonds Other Than through Tender Process May Be Limited	17	THE CITY	36
Under Certain Circumstances, the Remarketing Agent May be Removed, Resign or Cease Remarketing the Series 2010A		THE WATER SYSTEM	37
		Overview	37
		Facilities	37
		Service Area	38
		Water Supply	40

	<u>Page</u>		<u>Page</u>
Water Treatment and Regulatory Matters	43	DEBT SERVICE SCHEDULE.....	68
Capital Improvement Program	43	TAX MATTERS	70
Termination of Service Contract	44	LEGAL MATTERS	71
Water System Users	45	ABSENCE OF MATERIAL LITIGATION	72
Outstanding Existing Parity Lien Obligations.....	47	The Authority	72
Organization and Management.....	48	The City	72
Employee Benefits	50	RATINGS	72
WATER SYSTEM FINANCES.....	58	FINANCIAL ADVISOR.....	73
Rate Setting, Billing and Collection Procedures.....	58	UNDERWRITING	73
Rates, Fees and Charges	59	CONTINUING DISCLOSURE.....	74
Comparable Rates and Fees.....	63	MISCELLANEOUS.....	75
Investment of Water System Funds.....	64		
Pro Forma Debt Service Coverage	65		

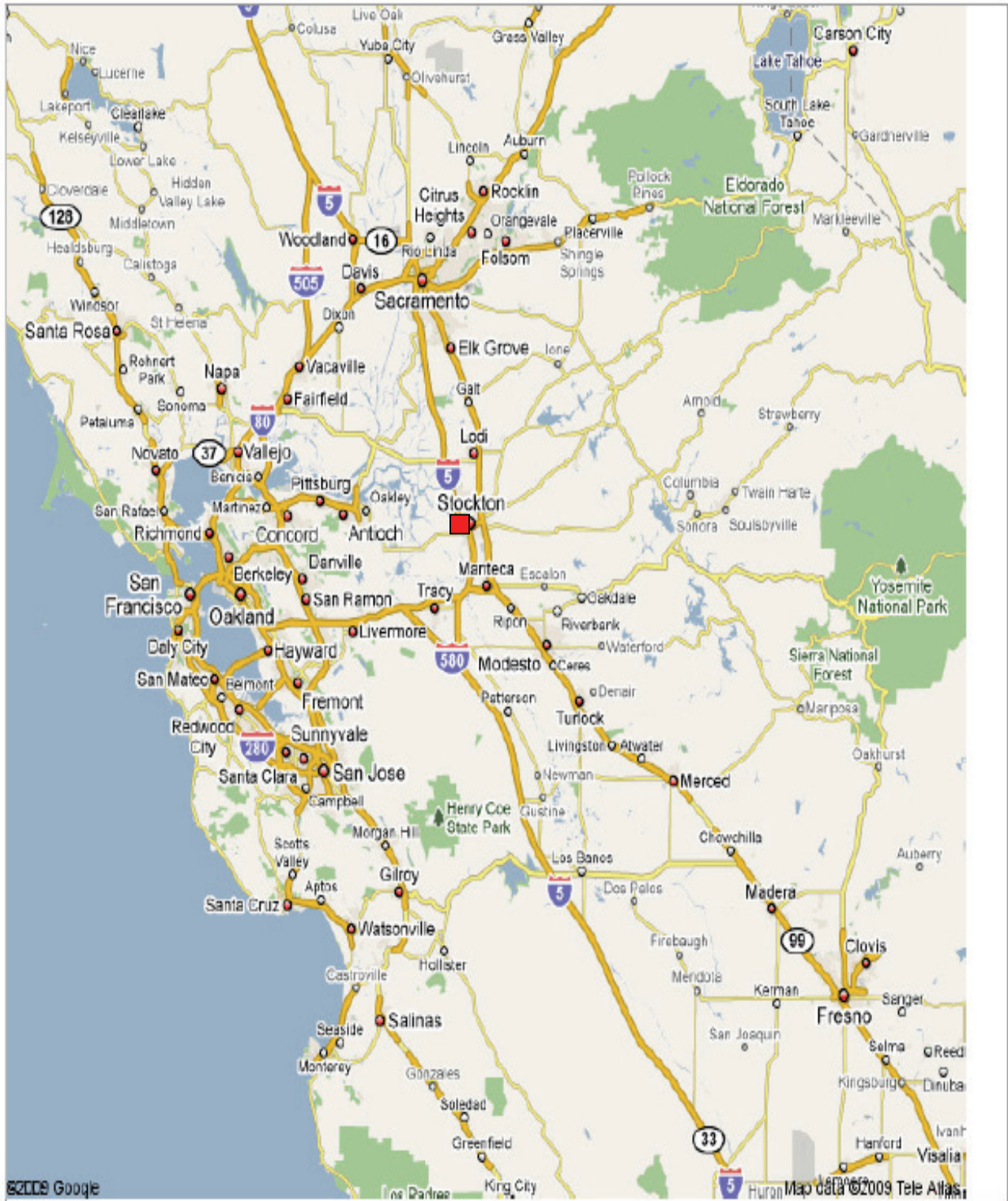
INDEX OF MAPS AND TABLES

City Location Map	vi
Service Area Map	39
Table 1 - Estimated Water Project Costs and Sources of Funds	7
Table 2 - Estimated Sources and Uses of Funds	10
Table 3 - Historic Water Production and Consumption	42
Table 4 - Customer Base by Type of Account and Number of Connections	45
Table 5 - Ten Largest Accounts by Annual Consumption	46
Table 6 - Ten Largest Accounts by Revenue	47
Table 7 - Outstanding Senior Lien Obligations.....	47
Table 8 - PERS Miscellaneous Plan Schedule of Funding Progress.....	53
Table 9 - PERS Miscellaneous Plan Three-Year Trend Information.....	54
Table 10 - Retirement Enhancement Plan Contribution Requirements	55
Table 11 - Retirement Enhancement Plan Trend Information	56
Table 12 - OPEB Three-Year Trend Information	57
Table 13 - Historical and Projected Connection Fee Revenues	59
Table 14 - Service Charges	60
Table 15 - Current and Adopted Rates.....	61
Table 16 - DWSP Surface Water Supply Fee	61
Table 17 - Backflow Device Tasting Charges.....	62
Table 18 - Private Fire Hydrant and Protection Services.....	62
Table 19 - Uncollectible Charges for Services.....	63
Table 20 - Current Monthly User Fee Comparison	63
Table 21 - Current Water Connection Fees Comparison	64
Table 22 - Historical Pro Forma Revenues, Expenses and Coverage	65
Table 23 - Projected Pro Forma and Debt Service Coverage Calculation	67
Table 24 - Debt Service Schedule	69

APPENDICES

APPENDIX A	- GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY OF STOCKTON.....	A-1
APPENDIX B	- CITY OF STOCKTON WATER UTILITY ENTERPRISE FUND FINANCIAL STATEMENTS.....	B-1
APPENDIX C	- SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS	C-1
APPENDIX D	- FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	D-1
APPENDIX E	- DTC AND THE BOOK-ENTRY ONLY SYSTEM	E-1
APPENDIX F	- PROPOSED FORM OF OPINION OF BOND COUNSEL	F-1
APPENDIX G	- PROPOSED FORM OF LETTER OF CREDIT..	G-1

REGIONAL MAP
City of Stockton
San Joaquin County, California



OFFICIAL STATEMENT

\$55,000,000
STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS,
SERIES 2010A
(DELTA WATER SUPPLY PROJECT)

INTRODUCTION

This Introduction is only a brief description of and partial guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page through the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2010A Bonds to potential investors is made only by means of the entire Official Statement. This Official Statement describes the Series 2010A Bonds only while the Series 2010A Bond are in the Weekly Interest Rate Period and subject to the DTC book-entry only system. Owners and Potential Owners of the Series 2010A Bonds should not rely on this Official Statement for information concerning the Series 2010A Bonds following conversion to a different Interest Rate Period but should look solely to the offering document to be used in connection with any such conversion. Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms as set forth in the Indenture or the Installment Purchase Contract. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—THE INDENTURE—Definitions of Certain Terms.”

General

The purpose of this Official Statement is to furnish information with respect to the issuance, sale and delivery of \$55,000,000 principal amount of Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “Series 2010A Bonds”). The Series 2010A Bonds are being issued by the Stockton Public Financing Authority (the “Authority”) under and pursuant to Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended (the “Act”), a resolution adopted by the Authority on October 5, 2010 and in accordance with the provisions of an Indenture, dated as of October 1, 2010 (the “Indenture”), by and between the Authority and Wells Fargo Bank National Association, as trustee (the “Trustee”).

Purpose

The Series 2010A Bonds are being issued by the Authority for the primary purpose of: (i) financing the costs of designing, constructing, acquiring, and installing certain additions, betterments, extensions and improvements constituting a phase of Delta Water Supply Project (the “Water Project”) to the Water System (the “Water System”) of the City of Stockton (the “City”); (ii) making a deposit in the Reserve Fund established for the Series 2010A Bonds under the Indenture in the amount equal to the Reserve Requirement; (iii) funding interest on a portion of the Series 2010A Bonds through and until June 30, 2012; and (iv) paying certain costs associated with the issuance of the Series 2010A Bonds. See “PLAN OF FINANCE,” “ESTIMATED SOURCES AND USES OF PROCEEDS OF BONDS” and “THE WATER PROJECT.”

Security for the Series 2010A Bonds

The Series 2010A Bonds are limited obligations of the Authority payable solely from installment payments (the “2010 Installment Payments”) to be made by the City under an Installment Purchase Contract, dated as of October 1, 2010 (the “Installment Purchase Contract”), by and between the Authority and the City and certain amounts held under the Indenture. As security for the payment of the 2010 Installment Payments, the City has pledged “Net System Revenues” derived from the operation of the Water System after payment of operations and maintenance costs. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS.”

The City may issue additional obligations payable from Net System Revenues on a parity with the 2010 Installment Payments, Existing Parity Obligations and the Credit Facility Provider Reimbursement Obligations (each as defined herein). However, for so long as the 2009 Bonds (defined herein) remain outstanding, the City has covenanted not to issue any additional Parity Obligations other than the Parity Obligations issued in connection with the Series 2010A Bonds. The City may also issue additional obligations payable from the Net System Revenues on a basis subordinate to the 2010 Installment Payments, the Existing Parity Obligations and the Credit Facility Provider Reimbursement Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS–Parity Obligations” and “–Subordinate Obligations.”

THE SERIES 2010A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM 2010 INSTALLMENT PAYMENTS MADE BY THE CITY AND CERTAIN MONEYS HELD UNDER THE INDENTURE. THE SERIES 2010A BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, AND SHALL BE PAYABLE SOLELY FROM THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2010 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION PAYABLE SOLELY FROM THE NET SYSTEM REVENUES OF THE WATER SYSTEM AS PROVIDED IN THE INSTALLMENT PURCHASE CONTRACT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2010A BONDS. THE AUTHORITY HAS NO TAXING POWER. THE ISSUANCE OF THE SERIES 2010A BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE SERIES 2010A BONDS.

The Letter of Credit

The Series 2010A Bonds will be issued as variable rate bonds initially bearing interest at a Weekly Interest Rate. While the Series 2010A Bonds are in a Weekly Interest Rate Period, payment of the principal and Purchase Price of, and interest on the Series 2010A Bonds will be supported initially by an irrevocable, transferable letter of credit (the “Letter of Credit”) issued by Union Bank, N.A. (the “Bank”), pursuant to and subject to the terms of a Reimbursement Agreement, dated as of October 1, 2010 (the “Reimbursement Agreement”), among the City, the Authority and the Bank. The Letter of Credit will permit the Trustee, in accordance with the terms thereof, to draw an amount sufficient to pay (a) the principal amount of, or the portion of the Purchase Price constituting principal of, the Series 2010A Bonds, plus (b) the interest on, or the portion of the Purchase Price constituting interest on, the Bonds up to 53 days of accrued interest at a maximum annual interest rate of 12%. The Letter of Credit will expire on October 18, 2013, unless extended or earlier terminated pursuant to its provisions as more fully described herein and may, under

certain circumstances, be replaced by a substitute letter of credit. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS,” and “THE BANK, THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT.” In such event, the Bonds are subject to a mandatory tender for purchase. See “THE SERIES 2010A BONDS–Optional and Mandatory Tenders for Purchase.”

So long as a Letter of Credit is in effect, the provider of such Letter of Credit will, upon the occurrence of an Event of Default under the Indenture, control the exercise of the rights and remedies of the Holders of the Series 2010A Bonds.

Remarketing Agent

The City has appointed Citigroup Global Markets Inc. as Remarketing Agent (the “Remarketing Agent”) under the Indenture. The Remarketing Agent currently maintains an office at 390 Greenwich Street, 2nd Floor New York, New York 10013. The Remarketing Agent may be removed or replaced any time at the direction of the City, subject to the consent of the Bank in certain circumstances and the terms and conditions of the Indenture and the Remarketing Agreement, dated as of October 1, 2010 (the “Remarketing Agreement”), between the City and the Remarketing Agent.

Tender Agent and Trustee

The Authority has appointed Wells Fargo Bank, National Association, to serve as tender agent (the “Tender Agent”) under the Indenture in addition to serving as Trustee. The Tender Agent may be removed or replaced at any time at the direction of the City, subject to the terms and conditions of the Indenture.

Existing Parity Obligations

The pledge of Net System Revenues securing the 2010 Installment Payments is on a parity with the pledge of Net System Revenues securing the payment or setting aside of all payments, transfers and other deposits (including debt service) on the following obligations: (i) the United States Department of Commerce Economic Development Administration 5%, 40-year Drought Relief Loan dated August 1977, which is currently outstanding in the principal amount of \$548,707.71 with a due date of July 1, 2017; (ii) the obligation of the City with respect to the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2002A delivered by the California Statewide Communities Development Authority on May 7, 2002, which are currently outstanding in the aggregate principal amount of \$10,070,000 with a final maturity date of October 1, 2022; and (iii) the Stockton Public Financing Authority 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Projects) (the “2005 Series A Bonds”), which are currently outstanding in the aggregate principal amount of \$24,230,000 with a final maturity date of October 1, 2035 (collectively, the “Existing Parity Obligations”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS–Parity Obligations.”

Outstanding Subordinate Debt

The 2010 Installment Payments are secured by and payable from the Net System Revenues on a basis senior to the City’s installment payments securing the Authority’s outstanding \$18,575,000 principal amount of Water Revenue Bonds, Series 2009A (Delta Water Supply Project) (the “Series 2009A Bonds”) and \$154,550,000 principal amount of Water Revenue Bonds, Taxable Build America Bonds, Series 2009B (Delta Water Supply Project) (the “Taxable Series 2009B Bonds” and together, the “2009 Bonds”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS–Subordinate Obligations.”

Continuing Disclosure

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Series 2010A Bonds or to any decision to purchase, hold or sell the Series 2010A Bonds, and the Authority will not provide any such information. The City has undertaken all responsibilities of the Authority for any continuing disclosure to Holders of the Series 2010A Bonds. The City covenants for the benefit of Holders of the Series 2010A Bonds and beneficial owners to provide certain financial information and operating data relating to the City and the Water System by not later than 270 days after the end of the City's Fiscal Year, commencing with the Report for the 2010-11 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by means of the Electronic Municipal Market Access ("EMMA") site maintained by the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Bondowners Risks

An investment in the Series 2010A Bonds involves risk. See "BONDOWNERS' RISKS" for a discussion of important investment considerations and other risk factors associated with the purchase of the Series 2010A Bonds. Any one or more of the risks discussed, and others, could lead to a decrease in the market value of the Series 2010A Bonds or the ability of the City to make 2010 Installment Payments. Potential purchasers of the Series 2010A Bonds are advised to review the entire Official Statement carefully and to conduct such due diligence and other review as they deem necessary and appropriate under the circumstances.

Certain Information Related to this Official Statement

Brief descriptions of the Series 2010A Bonds, the security for the Series 2010A Bonds, the Water System, the Authority and the City are included in this Official Statement together with summaries of certain provisions of the Series 2010A Bonds, the Indenture, the Installment Purchase Contract and certain other documents. Such descriptions do not purport to be comprehensive or definitive. Certain general demographic and economic information relating to the City is contained in APPENDIX A.

All references herein to the Indenture, the Installment Purchase Contract and other documents are qualified in their entirety by reference to such documents, and references herein to the Series 2010A Bonds are qualified in their entirety by reference to the form thereof included in the Indenture, copies of which are available prior to the issuance of the Series 2010A Bonds at the office of the Interim Chief Financial Officer, City of Stockton, 425 North El Dorado Street, Stockton, California 95202; telephone: 209-937-8398 and thereafter at the office of the Trustee, Wells Fargo Bank National Association, 333 Market Street, 18th Floor, San Francisco, California 94105; telephone: 415-371-3353.

THE WATER PROJECT

General

The Series 2010A Bonds are being issued for the purpose of: (i) financing a portion of the costs of the Water Project of the City; (ii) making a deposit to the Reserve Fund established for the Series 2010A Bonds under the Indenture in the amount of the Reserve Requirement, (iii) funding interest on a portion of the Series 2010A Bonds through and until June 30, 2012; and (iv) paying certain costs associated with the issuance of the Series 2010A Bonds. The improvements to be acquired and constructed with the proceeds of the Series 2010A Bonds are described under “THE WATER PROJECT.”

The total estimated cost of the Water Project is \$217.4 million. See Table 1–“Estimated Water Project Costs and Sources of Funds.” The proceeds of the Series 2010A Bonds will be used by the Authority to finance the second phase of the costs of the Water Project which consists of improvements designed to provide supplemental water supplies in the amount of 30 million gallons per day (“mgd”) to the Stockton Metropolitan Area to satisfy current and future water demands. The balance of costs of the Water Project will be paid from grants or other available sources. See “THE WATER SYSTEM–Financial Information” and “THE WATER PROJECT–General–Description–Estimated Water Project Costs.”

In connection with the development of the Water Project and increasing costs of water under long-term purchase contracts, the City adopted significant changes in the rates and charges for Water Services. For a summary of the current and adopted rates see “WATER SYSTEM FINANCES.”

Description

The Water Project, also referred to as the “Delta Water Supply Project,” consists of the design, construction, acquisition and installation of a supplemental surface water supply system to serve the Stockton Metropolitan Area. Upon completion, the Water Project will draw water from the Sacramento-San Joaquin River Delta (the “Delta”) to provide additional water through the City’s existing supply system. Specifically, the Water Project will consist of constructing an Intake and Pump Station Facility to be located along the San Joaquin River; acquiring and installing approximately 12 miles of underground pipelines along Eight Mile Road; constructing and equipping a 30 mgd water treatment plant to be located on Lower Sacramento Road; constructing related engineering, administrative and operations facilities; acquiring necessary rights of way and financing related permitting, administrative and professional services costs. The Water Project is required by the City to replace declining and less reliable surface water supplies, protect groundwater resources and to generally provide for the current and future planned water needs within the Stockton Metropolitan Area.

On March 8, 2006, the City received its first Water Rights Permit (Permit No. 21176) from the State Water Resources Control Board to divert and treat up to 33,600 acre-feet per year from the Delta, however, it is intended as a supplemental water supply to current purchased surface water from the Stockton East Water District (“SEWD”) and groundwater. In compliance with Water Code Section 1485, the City is authorized to divert from the Delta an amount less than or equal to the amount of properly treated effluent discharge from the Regional Wastewater Control Facility to the Delta, based on a 15-day running average.

For calendar year 2009, potable water demand within the Service Area was approximately 36,000 acre-feet per year. In the early years after the Water Project becomes operational, the output is expected to be somewhat less than 33,600 acre-feet per year. The City will continue to purchase some amount of treated surface water from the SEWD and groundwater pumping will be at a minimal amount as system pressure

needs dictate. It is anticipated that the City will purchase an initial 17,500 acre-feet from the SEWD in addition to approximately 17,500 acre-feet from the Water Project with an additional 1,000 to 2,000 acre-feet of groundwater pumping to meet demand. The amount of water that was historically purchased from SEWD above 17,500 acre-feet per year is expected to be made available to the other Urban Contractors, namely the California Water Service Company and San Joaquin County.

On January 22, 2008, the City and the Woodbridge Irrigation District (the “Irrigation District”) entered into an Agreement for Purchase of Water from the Woodbridge Irrigation District by the City of Stockton (the “WID Agreement”) for a term of 40 years with one 40-year option to extend. Pursuant to the WID Agreement, the Irrigation District is required to make available to the City 6,500 acre-feet per annum of surplus water and the City is required to pay to the Irrigation District \$200 per acre-foot, increased annually by an amount not to exceed 3% per year, commencing January 1, 2011 (or \$1.3 million per annum), irrespective of whether the City takes the water available under the WID Agreement, and to construct certain capital improvements to measure and take delivery of the water. The water purchased pursuant to the WID Agreement will be available to the City from March 1 through July 31 of each year to supplement water sources when pumping from the Delta is restricted.

Initially, the Water Project will have the capacity to treat and deliver up to 30 mgd or 33,600 acre-feet per year of water. Ultimately, by approximately 2050, the water treatment plant component of the Water Project would be expanded to treat 160 mgd or 125,900 acre-feet per year of water.

Funding Sources

The total Water Project costs are anticipated to be \$217.4 million and proceeds from the 2009 Bonds and the Series 2010A Bonds represent the primary source of funds therefore. To meet the projected funding requirements for Operation and Maintenance Costs for the Water System and debt service on the Parity Obligations and the 2009 Bonds, on July 7, 2009, the City Council approved multi-year increases in monthly water rates and a new Surface Water Supply Fee to be charged to new customers connecting to the Water System for the cost of the new source capacity to be provided by the Water Project. See “THE WATER SYSTEM—General—Rates and Fees.”

In October 2008, the City requested approximately \$12.5 million in Proposition 84 grant funding from the State to fund a portion of the construction costs for the Intake and Pump Station Facility. In 2006, the voters of the State passed Proposition 84 making grant funding available to implement projects identified in the June 2005 Delta Region Drinking Water Quality Management Plan – a plan for which the City was a participating member in addition to the Contra Costa Water District and Solano County Water Agency under a grant administered by the CALFED Bay-Delta Program. Final grant guidelines and a proposal solicitation package were issued on July 30, 2010. The City submitted its application in August 2010. On September 21, 2010, the City received notice from the State Department of Water Resources awarding a conditional grant commitment in the amount of \$12,521,052 in Proposition 84 funding for the Water Project. The City expects to execute a grant agreement with the State by October 2010. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS—Parity Obligations.”

Table 1 below summarizes the estimated costs of each component of the Water Project (in 2009 dollars) and the expected source of funds.

Table 1
City of Stockton
Water System
Estimated Water Project Costs and Sources of Funds
(in 2009 Dollars)

Description of Improvement	Source of Funds					Total Estimated Cost
	2009 Bonds	Proposition 84 Grant Funds	Series 2010A Bonds	Other Water System Revenues		
Intake and Pump Station Facility Design	\$1,106,417	\$2,147,996	\$999,390	\$0		\$4,253,803
Intake and Pump Station Facility Construction [†]	6,156,508	8,346,790	1,528,119	500,000		16,531,417
Water Treatment Plant and Pipeline Design	6,279,961	0	0	0		6,279,961
Water Treatment Plant and Pipeline Construction [†]	128,216,203	0	37,217,780	0		165,433,983
Project Administration	1,374,789	677,460	2,572,030	0		4,624,279
Permitting	1,567,972	852,648	1,360,814	0		3,781,434
Acquisition and Right of Way	2,175,160	124,840	200,000	4,819,908		7,319,908
Environmental, Financial, Legal and Professional Services	3,122,990	142,005	706,858	1,680,091		5,651,944
Contingency	<u>0</u>	<u>229,314</u>	<u>3,065,878</u>	<u>187,883</u>		<u>3,483,075</u>
TOTAL ESTIMATED PROJECT COST	\$150,000,000	\$12,521,052	\$47,650,869	\$7,187,882		\$217,359,803

[†] Includes construction management costs.

Source: City of Stockton, Municipal Utilities Department.

Status of Construction

The Water Project is being constructed in several phases. The initial phase, which consisted of design, administration, permitting and costs related to the acquisition of land and rights of way commenced in September 2003. A portion of the costs of the initial phase were paid for with proceeds of the 2009 Bonds. As of June 30, 2010, the City had spent approximately \$71 million on these initial costs, including initial construction activities.

Proceeds from the issuance of the Series 2010A Bonds will be used to construct the Intake and Pump Station Facility; acquire and install approximately 12 miles of underground pipelines along Eight Mile Road; and constructing and equipping a 30 mgd water treatment plant. Construction of these components of the Water Project commenced in September 2009 and is expected to be completed in late spring 2012.

Contractors and Schedule

The City awarded the construction contract for the Intake and Pump Station Facility in August 2009 to Preston Pipelines, the contractor who submitted the lowest responsive responsible bid based upon a design/bid/build procurement approach. In August 2009, the City also amended an existing design/build contract with CDM Constructors for the Water Treatment Plant and Pipeline Design to include the costs of construction.

The Intake and Pump Station Facility contract requires that the contractor provide: (i) commercial general liability insurance which includes bodily injury and property damage liability insurance with combined single limits of not less than \$2 million per occurrence, (ii) commercial automobile liability insurance with combined single limits of liability of not less than \$1 million per occurrence, and (iii) worker's compensation insurance as required under the California Labor Code. In addition, the "all risk" (excluding earthquake and flood) builders risk insurance in an amount of 100% of the replacement value thereof, is provided under the City's insurance policy and the contractor is responsible for paying all applicable deductibles in connection with the Intake and Pump Station Facility component of the Water Project. In the event of a partial or total destruction by the perils insured against, the contractor agrees to promptly reconstruct, repair, replace and restore all work or material so destroyed or injured. The construction contract also requires that the contractor maintain (i) material and labor bonds in an amount of not less than 100% of the contract price, to satisfy claims of material suppliers and of mechanics and laborers employed by the Contractor and (ii) performance bonds in the amount of 100% of the contract price to guarantee faithful performance of all of its work.

The proposed Water Treatment Plant and Pipelines Design/Build Contract Amendment for Construction currently requires that the contractor provide commercial general liability insurance with combined single limits of not less than \$25 million for bodily injury and property damage for any one occurrence; commercial automobile liability insurance with combined single limits of liability of not less than \$10 million per occurrence, and worker's compensation insurance in the amount of \$5 million. In addition, the contractor is required to take out and maintain a project specific professional errors and omission policy of not less than \$15 million per claim, pollution liability insurance in the amount of \$10 million per occurrence and addition automobile insurance with a combined single limit of \$5 million covering transportation and/or hauling of hazardous materials. The contractor is required to provide builders risk insurance in an amount of 100% of the replacement value thereof to be provided under the City's insurance policy and the Contractor is responsible for paying all applicable deductibles in connection with the Water Treatment Plant and Pipelines component of the Water Project. In the event of a partial or total destruction by the perils insured against, the contractor agrees to promptly reconstruct, repair, replace and

restore all work or material so destroyed or injured. The proposed amendment to the construction contract also requires that the contractor maintain (i) material and labor bonds in an amount of not less than 100% of the contract price, to satisfy claims of material suppliers and of mechanics and laborers employed by the contractor and (ii) performance bonds in the amount of 100% of the contract price to guarantee faithful performance of all of its work.

Environmental and Land Use Approvals. Projects undertaken by the City, including the Water Project, are generally subject to the California Environmental Quality Act, as amended (Division 13 of the California Public Resources Code) (“CEQA”). Under CEQA, a public agency is required, following preparation of an initial assessment, to determine whether an environmental impact report (an “EIR”), a negative declaration or a mitigated negative declaration is required for a project. If there is substantial evidence that significant environmental effects may occur, an EIR is required to be prepared. The City prepared an EIR for the Water Project that was certified in November 2005. All other environmental approvals necessary to proceed with the Water Project, including those required by State Department of Fish and Game and the Section 404 Clean Water Act permit, have been obtained.

Seismic Standards

Each component of the Water Project is designed to meet or exceed current seismic standards for municipal water systems.

Water Rate and Financing Study

The City contracted with HDR Engineering, Inc to complete a Water Rate and Financing Study in connection with the Water Project (the “Study”). The objective of the Study was to meet the overall funding and financing requirements of the Water Project and long-term capital needs of the Water System through a combination of funding resources, including water rates while balancing the impact of the capital improvements to the Water System between existing customers and future growth-related expansion. The Study includes review of the five-year capital improvement program to ensure adequate future revenue to construct and maintain Water System infrastructure. A copy of the Study can be obtained by contacting the City Clerk, City of Stockton, 425 North El Dorado Street, Stockton, California 95202 or online at www.stocktongov.com. For a description of the capital improvement program, see “THE WATER SYSTEM—Capital Improvement Program.”

(Remainder of this Page Intentionally Left Blank)

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2010A Bonds are set forth below.

Table 2
Estimated Sources and Uses of Funds

Sources of Funds:	<u>\$55,000,000.00</u>
TOTAL ESTIMATED SOURCES	\$55,000,000.00
Uses of Funds:	
Deposit to Improvement Fund ⁽¹⁾	\$50,963,260.69
Deposit to Reserve Fund	3,460,084.31
Costs of Issuance ⁽²⁾	<u>576,655.00</u>
TOTAL ESTIMATED USES OF FUNDS	\$55,000,000.00

-
- (1) See “THE WATER PROJECT.” Also includes interest on a portion of the Series 2010A Bonds through and until June 30, 2012.
(2) Includes Trustee, Bond Counsel, Disclosure Counsel Trustee’s Counsel and Financial Advisor fees, and costs, Letter of Credit fees and costs, the Underwriter’s discount, rating agency fees, printing costs and other costs of issuance. For the Underwriter’s discount see “UNDERWRITING.”

THE SERIES 2010A BONDS

The following is a summary of certain provisions of the Series 2010A Bonds. Reference is made to the Indenture for the complete provisions thereof, and the discussion herein is qualified in its entirety by such reference. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – THE INDENTURE.” This Official Statement provides information concerning the Series 2010A Bonds bearing interest at a Weekly Interest Rate. Owners and Potential Owners of the Series 2010A Bonds should not rely on this Official Statement for information concerning the Series 2010A Bonds following a change of the Series 2010A Bonds from a Weekly Interest Rate Period, but should look solely to the offering documents to be used in connection with any such change in the Interest Rate Period.

General

The Series 2010A Bonds will be in the aggregate principal amount, will be dated as of the date and will bear interest in accordance with the terms of the Indenture and mature (subject to redemption) as shown on the cover page of this Official Statement, subject to the Maximum Rate of 12% per annum. The Series 2010A Bonds will initially bear interest at the Weekly Interest Rate. The Series 2010A Bonds will be issued in fully-registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases will be in principal amounts of \$100,000 and integral multiples of \$5,000 in excess of \$100,000. Interest on the Series 2010A Bonds is payable on the first Wednesday of each month (or on the next Business Day if any Wednesday is not a Business Day), commencing November 3, 2010 (each an “Interest Payment Date”) and will be calculated on the basis of a 365/366 day year for the actual number of days elapsed. DTC will act as securities depository for the Series 2010A Bonds. Individual purchases and sales may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2010A Bonds purchased. References herein to the Bondholders or Owners shall mean DTC and shall not mean the beneficial owners of the Series 2010A Bonds. Principal of and interest on the Series 2010A Bonds are payable by wire transfer by the Trustee to DTC, which is expected, in turn, to remit such amounts to the DTC Direct Participants for subsequent

disbursement to DTC Indirect Participants and beneficial owners. See APPENDIX E-“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

For any Weekly Interest Rate Period, interest on the Series 2010A Bonds shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Wednesday, commencing on the second preceding Interest Accrual Date) and ending on the Tuesday immediately preceding the Interest Payment Date (or, if sooner, the last day of such Weekly Interest Rate Period). In any event, interest on the Series 2010A Bonds shall be payable for the final Interest Rate Period to but not including the date on which the Series 2010A Bonds have been paid in full.

Determination of Weekly Interest Rate

The determination of Weekly Interest Rate by the Remarketing Agent shall be conclusive and binding upon the City, the Trustee, the Tender Agent, the Remarketing Agent, the Credit Facility Provider and the Bondowners.

During each Weekly Interest Rate Period for Series 2010A Bonds, the Series 2010A Bonds shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by 5:00 p.m., New York City time, on Tuesday of each week during the Weekly Interest Rate Period, or if such day is not a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on and including the next succeeding Tuesday. Thereafter, each Weekly Interest Rate shall apply to the period commencing on and including Wednesday and ending on and including the next succeeding Tuesday, unless such Weekly Interest Rate Period ends on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on and including the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on and including the last day of such Weekly Interest Rate Period. Each Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Series 2010A Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series 2010A Bonds, would enable the Remarketing Agent to sell all of the Series 2010A Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Interest Rate for any week on the Series 2010A Bonds bearing interest at such rate, then the Weekly Interest Rate for such week shall be the same as the immediately preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the immediately preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index made available for the week preceding the date of determination, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the day such Weekly Interest Rate would otherwise be determined as provided in the Indenture for such Weekly Interest Rate Period.

Conversion from the Weekly Interest Rate Period

At the direction of the City, from time to time, the Series 2010A Bonds may be Converted from a Weekly Interest Rate Period to another Interest Rate Period as provided in the Indenture. The Series 2010A Bonds will be subject to mandatory tender for purchase on the proposed effective date of the Conversion

whether or not the conditions precedent to Conversion contained in the Indenture and described herein are satisfied.

Notice of Conversion. If the City elects to Convert the interest rate on the Series 2010A Bonds to a Daily Interest Rate, a Long-Term Interest Rate or Bond Interest Term Rates as provided in the Indenture, the Trustee is required to give notice by first-class mail of such Conversion to the Owners of the Series 2010A Bonds not less than 10 days prior to the proposed effective date of the Conversion.

Rescission of Election. The City has the right to deliver to the Trustee, the Remarketing Agent, the Tender Agent, and the Credit Facility Provider, on or prior to 11:00 a.m., New York City time, on the second Business Day prior to any such Conversion a notice to the effect that the City elects to rescind its election to make such Conversion. If the City rescinds its election to make such Conversion, then the Interest Rate Period will not be Converted and the Series 2010A Bonds will continue to bear interest at the Weekly Interest Rate as in effect immediately prior to such proposed Conversion. In any event, if notice of a Conversion has been mailed to the Owners of the Series 2010A Bonds as provided in the Indenture and the City rescinds its election to make such Conversion, then the Series 2010A Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Indenture.

Certain Additional Conditions. No Conversion of Series 2010A Bonds from one Interest Rate Period to another will take effect under the Indenture unless each of the following conditions, to the extent applicable, has been satisfied:

(i) With respect to the new Interest Rate Period, there is in effect a Credit Facility if and as required under the Indenture.

(ii) The Trustee has received a Favorable Opinion of Bond Counsel with respect to such Conversion.

(iii) In the case of any Conversion with respect to which there will be no Credit Facility in effect to provide funds for the purchase of Series 2010A Bonds on the Conversion Date, the remarketing proceeds available on the Conversion Date will not be less than the amount required to purchase all of the Series 2010A Bonds at the Purchase Price (but not including any premium) in which case the provision of the Indenture addressing insufficient funds for tenders will apply. See “*Inadequate Funds for Tenders is not an Event of Default.*”

Failure to Meet Conditions. In the event that any condition to the Conversion of the Series 2010A Bonds is not satisfied as provided in the Indenture, then the Interest Rate Period will not be Converted and the Series 2010A Bonds will continue to bear interest at the Weekly Interest Rate, as in effect immediately prior to such proposed Conversion, and the Series 2010A Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Indenture.

Optional and Mandatory Tenders for Purchase

Purchase of Series 2010A Bonds During Weekly Interest Rate Period. During any Weekly Interest Rate Period, any Series 2010A Bond (other than a Bank Bond) bearing interest at a Weekly Interest Rate shall be purchased in an Authorized Denomination (provided that the amount of any such Series 2010A Bond not to be purchased will be in an Authorized Denomination) from its Owner at the option of the Owner on any Business Day at a purchase price equal to the Purchase Price, upon delivery to the Tender Agent at its

Corporate Trust Office for delivery of Series 2010A Bonds and to the Trustee at its Corporate Trust Office of an irrevocable written notice which states the principal amount thereof to be purchased and the date on which the Series 2010A Bonds to be purchased, which date is required to be a Business Day not prior to the seventh day after the date of the delivery of such notice to the Tender Agent, a copy of such notice to be promptly delivered to the Credit Facility Provider. Any notice delivered to the Tender Agent after 4:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day. Bank Bonds may not be tendered for purchase at the option of the Owner thereof.

Mandatory Tender for Purchase Upon Substitution, Termination or Expiration of Credit Facility; Mandatory Credit Facility Tender. If, at any time that the Credit Facility Provider is not in default under the Credit Facility, the Trustee gives notice, in accordance with the Indenture, that the Series 2010A Bonds will, on the date specified in such notice, be subject to purchase as a result of (i) the substitution of that Credit Facility or the termination or expiration of the term, as extended, of that Credit Facility, including but not limited to termination at the option of the City in accordance with the terms of such Credit Facility or (ii) the occurrence of a Mandatory Credit Facility Tender, then (x) in the case of a Mandatory Credit Facility Tender, on the fifth Business Day after the Trustee receives the notice of Mandatory Credit Facility Tender from the Credit Facility Provider, (y) in the case of any termination or expiration of the Credit Facility other than by reason of a Mandatory Credit Facility Tender, on the fifth Business Day preceding any termination or expiration of such Credit Facility and (z) on the effective date of any such substitution of the Credit Facility, each such Bond shall be purchased or deemed purchased at the Purchase Price.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Series 2010A Bonds are subject to mandatory tender for purchase on the first day of each Interest Rate Period (or on the day which would have been the first day of an Interest Rate Period had one of the events specified in the Indenture regarding rescission of election of a Conversion or failure to satisfy the conditions for a Conversion not occurred which resulted in the interest rate on the Bonds not being Converted), at the Purchase Price, payable in immediately available funds.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of the Series 2010A Bonds in accordance with the Indenture, the Trustee is required to give the notice stating, among other things, (i) in the case of a mandatory tender for purchase on the first day of each Interest Rate Period, the type of Interest Rate Period to commence on such mandatory purchase date; (ii) in the case of a mandatory tender for purchase upon substitution, termination or expiration of a Credit Facility, that the Credit Facility will expire or terminate and that the Series 2010A Bonds will no longer be payable from the Credit Facility then in effect and that any rating applicable to the Series 2010A Bonds may be reduced or withdrawn and, in the case of a substitution, the name of the new Credit Facility Provider and that information about such new Credit Facility Provider will be forthcoming; (iii) that the Purchase Price of any Series 2010A Bond subject to mandatory tender for purchase shall be payable only upon surrender to the Tender Agent at its Corporate Trust Office for delivery of 2010A Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondowner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (iv) that, provided that moneys sufficient to effect such purchase shall have been provided through the remarketing of such Series 2010A Bonds by the Remarketing Agent or through the Credit Facility, all Series 2010A Bonds subject to mandatory tender for purchase shall be purchased on the Mandatory Purchase Date; and (v) that if any Owner subject to mandatory tender for purchase does not surrender that Series 2010A Bond to the Tender Agent for purchase on the Mandatory Purchase Date, then that Series 2010A Bond shall be deemed to be an Undelivered Bond, that no interest shall accrue on that Series 2010A Bond on and after the Mandatory Purchase Date and that the Owner shall have no rights under the Indenture other than to receive payment of the Purchase Price.

Payment of Purchase Price. Payment of the Purchase Price of any such Series 2010A Bond shall be made by the Tender Agent in immediately available funds by 3:00 p.m., New York City time, on the Purchase Date upon delivery to the Tender Agent at its Corporate Trust Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondowner with the signature of such Bondowner guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 12:00 noon, New York City time, on the Purchase Date specified in the Indenture.

Sources of Payment for Purchase Price. Funds for the payment of the Purchase Price will be received by the Tender Agent from the following sources and used in the order of priority indicated:

First: proceeds of the sale of Series 2010A Bonds remarketed pursuant to the Indenture and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Bond Purchase Fund; and

Second: money furnished by the Credit Facility Provider to the Tender Agent for deposit into the Credit Facility Purchase Account of the Bond Purchase Fund from draw requests on the Credit Facility to pay the Purchase Price of Series 2010A Bonds tendered and not remarketed, if any; and

Third: any funds provided by the City for such purpose in its sole discretion (there being no obligation of the City to so provide any such funds).

Notice of Owner's Election to Tender Bond Deemed to be Irrevocable; Undelivered Bonds. The giving of notice by an Owner of Bonds during a Weekly Interest Rate Period that such Owner elects to optionally tender a Series 2010A Bond for purchase as provided in the Indenture constitutes the irrevocable tender for purchase with respect to which such notice is given regardless of whether such Series 2010A Bond is delivered to the Tender Agent for purchase on the relevant Purchase Date.

Inadequate Funds for Tenders is not an Event of Default. If sufficient funds are not available for the purchase of all Series 2010A Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, all Series 2010A Bonds shall bear interest at the Maximum Rate from the date of such failed tender until all such Series 2010A Bonds are purchased, and all tendered Series 2010A Bonds shall be returned to their respective Owners. Notwithstanding any other provision of the Indenture, such failed purchase and return does not constitute an Event of Default.

Redemption Provisions

Optional Redemption. While the Credit Facility is in effect and the Credit Facility Provider has not failed to honor a properly presented drawing under the Credit Facility, the Series 2010A Bonds are subject to redemption from Available Moneys prior to the Maturity Date by the Authority, in whole or in part, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest thereon, if any, on any Business Day during a Weekly Interest Rate Period.

Mandatory Redemption. Except as may be provided in the Indenture, the Series 2010A Bonds are also subject to redemption prior to their stated maturities, in part, by lot, from mandatory redemptions required by and as specified in the Indenture commencing on October 1, 2017, at the principal amount thereof plus accrued interest thereon to but not including the date fixed for redemption, without premium, as follows:

Mandatory Redemption Date (October 1)	Principal Amount	Mandatory Redemption Date (October 1)	Principal Amount
2017	\$180,000	2029	\$400,000
2018	285,000	2030	410,000
2019	295,000	2031	425,000
2020	305,000	2032	440,000
2021	310,000	2033	430,000
2022	300,000	2034	465,000
2023	330,000	2035	2,710,000
2024	340,000	2036	565,000
2025	350,000	2037	580,000
2026	360,000	2038	14,450,000
2027	355,000	2039	14,925,000
2028	385,000	2040 [†]	15,405,000

[†] Final Maturity.

Notice of Redemption. During a Weekly Interest Rate Period, notice of redemption will be mailed by the Trustee, not less than 10 nor more than 60 days prior to the redemption date, (i) to the respective Owners of any Series 2010A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depository by facsimile and by first-class mail and (iii) to the Information Services by first-class mail with a copy to the Credit Facility Provider, if any. Notice of redemption is required to be given in the form and in accordance with the terms of the Indenture. Any notice given by the Trustee with respect to an optional redemption of 2010A Bonds may be (i) conditioned on the occurrence of any event or (ii) rescinded by the City upon written notice to the Trustee at least five days prior to such redemption. If the Trustee receives a notice of rescission from the City, the Trustee will promptly mail notice of such rescission to the same parties and in the same manner as the notice of redemption was mailed.

Receipt of any such notice is not a condition precedent to the effect of such notice and neither failure to receive any such notice nor any immaterial defect contained therein will affect the validity of the proceedings taken in connection with the action or the event concerning which such notice was given.

Selection of 2010A Bonds to be Redeemed. If any Series 2010A Bond is in a denomination larger than a minimum Authorized Denomination, a portion of such Series 2010A Bonds (the minimum Authorized Denomination or any integral multiple thereof) may be redeemed pursuant to the Indenture, in which case the Trustee will, without charge to the Owner, authenticate and issue a replacement Series 2010A Bond or Series 2010A Bonds for the unredeemed portion thereof. In the case of a partial redemption of Series 2010A Bonds, the Trustee will select the Series 2010A Bonds to be redeemed by lot at such times as directed by the City in writing. The Trustee will not select the Series 2010A Bonds for mandatory redemption pursuant to the Indenture more than 60 days prior to the redemption date.

Notwithstanding anything in the Indenture to the contrary, any Bank Bonds will be selected for redemption pursuant to the Indenture prior to the selection of any other Bonds.

Effect of Redemption. If notice of redemption is given pursuant to the Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2010A Bonds (or portions thereof) so called for redemption is held by the Trustee, on the redemption date designated in such notice, the Series 2010A Bonds (or portions thereof) so called for redemption will become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest with respect to the Series 2010A Bonds so called for redemption shall cease to accrue, the Series 2010A Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of the Series 2010A Bonds will have no rights in respect thereof except to receive payment of the Redemption Price and accrued interest. Any defect as failure to receive notice will not affect the sufficiency of the proceedings of redemption.

SPECIAL CONSIDERATIONS RELATING TO THE SERIES 2010A BONDS

Remarketing Agent is Paid by the City

The Remarketing Agent's responsibilities include determining the interest rate from time to time and using best efforts to remarket Series 2010A Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), as further described in this Official Statement. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Series 2010A Bonds.

Remarketing Agent Routinely Purchases Series 2010A Bonds for its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, may routinely acquire such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2010A Bonds for its own account and, in its sole discretion, routinely acquires such tendered Series 2010A Bonds in order to achieve a successful remarketing of the Series 2010A Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the Series 2010A Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Series 2010A Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Series 2010A Bonds by routinely purchasing and selling Series 2010A Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Series 2010A Bonds. The Remarketing Agent may also sell any Series 2010A Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2010A Bonds. The purchase of Series 2010A Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series 2010A Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2010A Bonds being tendered in a remarketing.

Series 2010A Bonds May Be Offered at Different Prices on Any Date Including a Rate Determination Date

Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series 2010A Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Series 2010A Bonds (including whether the Remarketing Agent is willing to

purchase Series 2010A Bonds for its own account). There may or may not be Series 2010A Bonds tendered and remarketed on a rate determination date, the Remarketing Agent may or may not be able to remarket any Series 2010A Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Series 2010A Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series 2010A Bonds at the remarketing price. In the event the Remarketing Agent owns any Series 2010A Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Series 2010A Bonds on any date, including the rate determination date, at a discount to par to some investors.

Ability to Sell the Series 2010A Bonds Other Than through Tender Process May Be Limited

The Remarketing Agent may buy and sell Series 2010A Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Series 2010A Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series 2010A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2010A Bonds other than by tendering the Series 2010A Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May be Removed, Resign or Cease Remarketing the Series 2010A Bonds, Without a Successor Being Named

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, the Weekly Interest Rate will be the same as the Weekly Interest Rate in effect for the immediately preceding week and will remain the same until a new Remarketing Agent is appointed. In no event will any Weekly Interest Rate be greater than the Maximum Interest Rate.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS

Initial Letter of Credit

As described herein, the Bank will issue and deliver the Letter of Credit to the Trustee. Under the Indenture, the Trustee will draw on the Letter of Credit in an amount sufficient to pay the principal of and interest on the Series 2010A Bonds when due, at maturity, upon redemption or upon acceleration, and the Purchase Price of any tendered Series 2010A Bonds that are not remarketed. See "THE BANK, THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."

Pledge of Net System Revenues

The Series 2010A Bonds are limited obligations of the Authority issued under and pursuant to the Indenture, payable solely from the 2010 Installment Payments to be made by the City under the Installment Purchase Contract and certain amounts held under the Indenture. The obligation of the City to make 2010 Installment Payments constitutes a special obligation of the City payable solely from a pledge of the "Net System Revenues."

The pledge of Net System Revenues is on a parity to the pledge of Net System Revenues securing payments with respect to the Existing Parity Obligations, which are currently outstanding in a principal amount of \$34,848,707.71 and have a final maturity date of October 1, 2035. See “–Parity Obligations,” and “THE WATER SYSTEM–Outstanding Existing Parity Obligations.”

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

“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water or capacity purchased or otherwise acquired for the Water System whether or not such water or capacity is delivered or capable of being delivered or otherwise made available to or received by or for the account of the Water System and all costs of treating water for the Water System and all expenses necessary to maintain and preserve the Water System in good repair and working order, including all administrative and management costs of the City that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self insurance funds) and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Installment Purchase Contract or of any other Parity Obligations or obligations subordinate to Parity Obligations, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor (ii) amortization of intangibles, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iv) charges for the payment of principal and interest on any debt service on account of any Parity Obligations or obligation subordinate to the Parity Obligations.

“Parity Obligations” is defined in the Installment Purchase Contract as the Existing Parity Obligations, the 2010 Installment Payments, any and all obligations of the City to reimburse the Bank, as Credit Facility Provider, for any drawings under the Letter of Credit and all obligations to repay the Bank for any liquidity advance with respect to Bank Bonds, including in each instance all accrued interest thereon (collectively, the “Credit Facility Provider Reimbursement Obligations”), any obligation (including, but not limited to, any installment payment obligation) payable on a parity with the 2010 Installment Payments from Net System Revenues, and the regularly scheduled payments under any Payment Agreement designated as a “Parity Obligation” in the Payment Agreement but excluding Termination Payments.

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

THE SERIES 2010A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM 2010 INSTALLMENT PAYMENTS MADE BY THE CITY AND CERTAIN MONEYS HELD UNDER THE INDENTURE. THE SERIES 2010A BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, AND SHALL BE PAYABLE SOLELY FROM THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2010 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION PAYABLE SOLELY FROM THE NET

SYSTEM REVENUES OF THE WATER SYSTEM AS PROVIDED IN THE INSTALLMENT PURCHASE CONTRACT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2010A BONDS. THE AUTHORITY HAS NO TAXING POWER. THE ISSUANCE OF THE SERIES 2010A BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE SERIES 2010A BONDS.

Rate Covenant

In the Installment Purchase Contract, the City has covenanted that it will fix, prescribe and collect rates, fees and charges for the Water Service during each Fiscal Year which are estimated by the City to yield Adjusted Net System Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but may not reduce the rates, fees and charges then in effect unless the Adjusted Net System Revenues from such reduced rates, fees and charges are estimated by the City to be sufficient to meet the requirements of such covenant.

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

“Adjusted Net System Revenues” means, for any Fiscal Year, the Net System Revenues for such Fiscal Year less, to the extent included in the calculation of Net System Revenues for such Fiscal Year, all amounts under any statutory scheme, during any period of calculation, received or expected to be received by the City or fiduciary, on behalf of the City, in such Fiscal Year in respect of any subsidy, reimbursement or other payment from a governmental entity (including, but not limited to, the federal government of the United States of America) in connection with, or related to, payments of principal of and/or interest on Parity Obligations.

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

Rate Stabilization Fund

The City previously established a fund (the “Rate Stabilization Fund”) into which the City may, from time to time, deposit from current System Revenues such amounts as the City determines and the amount of available current System Revenues will be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund and deposited in the City Revenue Fund, and any amounts so transferred within 270 days after the end of a Fiscal Year will be deemed System Revenues for such Fiscal Year when so transferred. The City may also apply moneys on deposit in the Rate Stabilization fund for any lawful purpose. All interest or other earnings upon amounts in the Rate

Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues or used for any lawful purpose.

Deposit of Revenues

Pursuant to the Indenture, the Trustee is required to deposit all Revenues received into the Bond Payment Fund and transfer such funds to the Interest Account, Principal Account, Redemption Account and the Reserve Fund in the manner and at the times described below. The Bond Payment Fund (and all accounts contained therein) is required to be maintained so long as any Series 2010A Bonds are Outstanding, the Credit Facility remains in effect or any amounts remain owing to the Credit Facility Provider.

All moneys in the Bond Payment Fund (and the accounts contained therein) are required to be disbursed only for the purposes and uses authorized in the Indenture; *provided*, that any money in the Bond Payment Fund or accounts contained therein not required to pay the principal and interest and redemption premiums, if any, on the Series 2010A Bonds or to pay any Credit Facility Provider Obligation will be transferred to the Authority to be used for any lawful purpose of the Authority on the Business Day immediately following each Interest Payment Date.

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

Principal Account. On or prior to each maturity date, the Trustee is required to transfer to the Principal Account that amount of money representing the portion of the Revenues constituting the principal becoming due and payable on such maturity date. All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Series 2010A Bonds on their respective maturities or on mandatory redemption prior thereto pursuant to the Indenture or to reimburse the Credit Facility Provider, for drawings on the Credit Facility to pay such amounts.

Redemption Account. Any prepayments paid to the Trustee pursuant to the Installment Purchase Contract are required to immediately be transferred to the Redemption Account. The Trustee is required to withdraw all money in the Redemption Account solely for the purpose of paying the interest and principal and redemption premiums, if any, on the Series 2010A Bonds to be redeemed on their respective redemption dates or to reimburse the Credit Facility Provider for drawings on the Credit Facility to pay such amounts. Moneys in the Redemption Account are required to be used to pay the interest and principal and redemption premiums, if any, on the Series 2010A Bonds to be redeemed in the following order: *first*, to reimburse the Credit Facility Provider for amounts drawn by the Trustee under the Credit Facility; and *second*, to other funds on deposit in the Redemption Account, other than amounts received by the Trustee in respect of drawings under a Credit Facility.

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

Reserve Fund

The Indenture establishes a Reserve Fund for the Series 2010A Bonds (the “Reserve Fund”). Proceeds from the issuance of the Series 2010A Bonds in the amount of the Reserve Requirement will be deposited in the Reserve Fund. See “ESTIMATED SOURCES AND USES OF FUNDS.”

The Reserve Fund is required to be maintained in an amount equal to the “Reserve Requirement” which means, as of any date of determination, the least of: (i) 10% of the sale proceeds of the Series 2010A Bonds; (ii) the maximum annual 2010 Installment Payments payable under the Installment Purchase Contract in the then-current or any future one-year period ending on October 1; or (iii) 125% of the average annual 2010 Installment Payments payable under the Installment Purchase Contract in the then current and all future one-year periods ending on October 1, all as computed by the City under the Code and specified in writing to the Trustee.

The initial Reserve Requirement is \$3,460,084.31, which is equal to 125% of the average annual 2010 Installment Payments. Proceeds of the Series 2010A Bonds in such amount upon issuance of the Series 2010A Bonds, will be deposited into the Reserve Fund.

Parity Obligations

Existing Parity Obligations. The pledge of Net System Revenues to secure the 2010 Installment Payments on the Series 2010A Bonds is on a parity with the pledge of Net System Revenues securing the payment or setting aside of all payments, transfers and other deposits (including debt service) on the Existing Parity Obligations consisting of: (i) the United States Department of Commerce Economic Development Administration 5%, 40-year Drought Relief Loan dated August 1977, which is currently outstanding in the principal amount of \$548,707.71 with a due date of July 1, 2017; (ii) the obligation of the City with respect to the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2002A delivered by the California Statewide Communities Development Authority on May 7, 2002, which are currently outstanding in the aggregate principal amount of \$10,070,000 with a final maturity date of October 1, 2022; and (iii) the Authority’s 2005 Series A Bonds, which are currently outstanding in the aggregate principal amount of \$24,230,000 with a final maturity date of October 1, 2035.

Average annual debt service on the Existing Parity Obligations is approximately \$2,356,000 through Fiscal Year 2017-18 and \$2,406,000 through Fiscal Year 2035-36. See “DEBT SERVICE SCHEDULE.”

The documents securing the Existing Parity Obligations set forth various events of default thereunder, including failure to pay interest or principal when due or default in the performance of certain covenants. The occurrence of an event of default relating to the Existing Parity Obligation permits the trustee for such bonds to declare all principal of and interest on such bonds to be immediately due and payable. In such event, sufficient Net System Revenues may not be available to the Trustee to pay debt service with respect to the Series 2010A Bonds in a timely manner. In addition, in the case of an event of default with respect to the Existing Parity Obligations, the trustee (or lender) for such Existing Parity Obligations may take other actions which adversely impact the City’s ability to pay 2010 Installment Payments securing the Series 2010A Bonds.

No Senior Obligations. The City covenants in the Installment Purchase Contract that it will not incur any obligations payable from Net System Revenues on a basis senior to the payment of the Existing Parity Obligations or the 2010 Installment Payments.

Issuance of Parity Obligations. The City may at any time and from time to time issue or create any Parity Obligations (in addition to the 2010 Installment Payments and an agreement or commitment that is a Credit Facility Provider Agreement or a Payment Agreement or will or may result in a Credit Provider Reimbursement Obligation, all of which may be incurred without compliance with the requirements described below), *provided*:

(i) There has not occurred and be continuing (A) an Event of Default under the terms of the Installment Purchase Contract, and any installment purchase contract, indenture, trust agreement or other document that provides for the issuance of Parity Obligations (each an “Issuing Document”) or (B) and Event of Default (as defined in any Credit Facility Provider Agreement) or (C) an Event of Default or Termination Event (as defined in any Payment Agreement) under any Payment Agreement; and

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

(A) the Adjusted Net System Revenues for either the most recent Fiscal Year for which audited financial statements are available or any 12 consecutive calendar month period during the 18 consecutive calendar month period ending immediately prior to the incurring of such additional Parity Obligations were at least sufficient to satisfy the Coverage Requirement for each of the next five full Fiscal Years following the incurring of such additional Parity Obligations or each of the next three full Fiscal Years following the incurring of such additional Parity Obligations during which no interest is capitalized, whichever is later, including the Parity Debt Service during such Fiscal Years on such additional Parity Obligations; and for the purpose of providing such certificate or certificates, the City or the City’s Consultant, as applicable, may adjust the Adjusted Net System Revenues for such Fiscal Year or 12 calendar month period, as the case may be, to reflect:

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

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

(B) the estimated Adjusted Net System Revenues for each of the five full Fiscal Years next following the earlier of (i) the end of the period during which interest on such additional Parity Obligations is to be capitalized or, if no interest is capitalized, the Fiscal Year in

which such additional Parity Obligations are incurred, or (ii) the date on which substantially all Water Projects financed with such additional Parity Obligations plus all Water Projects financed with all existing Parity Obligations are expected to commence operations, will be at least sufficient to satisfy the Coverage Requirement for such period; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the foregoing estimated Adjusted Net System Revenues to reflect:

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

(2) an allowance for Net System Revenues that are estimated to be derived from new customers of the Water System anticipated to be served by any additions or improvements to or extensions of the Water System reasonably expected to become available during such five year period in an amount equal to the additional Net System Revenues that are estimated to be derived from such customers.

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

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

In addition to the covenants described above, so long as the Existing Parity Obligations remain outstanding, the City is also required to satisfy certain covenants relating to the Existing Parity Obligations in order to issue or incur additional Parity Obligations. For so long as the 2009 Bonds remain outstanding the City has also covenanted not to issue any additional Parity Obligations other than the Parity Obligations incurred in connection with the Series 2010A Bonds.

Subordinate Obligations

There are outstanding \$18,575,000 principal amount of Series 2009A Bonds and \$154,550,000 principal amount of Taxable Series 2009B Bonds secured by installment payments payable by the City from Net System Revenues on a basis subordinate to the Parity Obligations and the Series 2010A Bonds. The

Taxable Series 2009B Bonds were issued as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. The Authority expects to receive a cash subsidy (the “BABs Subsidy”) from the United States Treasury equal to 35% of the interest payable on the Taxable Series 2009B Bonds.

The City may issue or incur obligations secured by Net System Revenues subordinate in priority of payment and lien to the Parity Obligations and such obligations may be paid only in accordance with the provisions of the Installment Purchase Contract as long as (i) no Event of Default has occurred and is continuing (unless such Event of Default will not be continuing after the incurrence of such subordinate obligations); (ii) no Event of Default (as defined in the Credit Facility Provider Agreement) under any Credit Facility Provider Agreement has occurred and is continuing and (iii) no Event of Default or Termination Event (as defined in any Payment Agreement) under any Payment Agreement has occurred and is continuing (unless such Event of Default or Termination Event will not be continuing after the incurrence of such subordinate obligations); provided the obligations under any Credit Facility Provider Agreement may be paid notwithstanding the foregoing clauses (i) and (ii).

THE BANK, THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT

The Bank

The information presented under this caption “THE BANK” has been supplied by Union Bank. None of the City, the Trustee, the Underwriter or the Remarketing Agent has independently verified such information, and none assumes responsibility for the accuracy of such information.

Union Bank, N.A. Union Bank is a full-service commercial bank providing an array of financial services to individuals, small businesses, middle-market companies, and major corporations. The Bank operates 339 branches and 561 ATM’s in California, Oregon, Washington, and Texas, as well as two international offices. The Bank serves commercial clients across the country, and has a retail customer base of approximately one million households.

Union Bank, N.A. is the primary subsidiary of UnionBanCal Corporation, the second-largest commercial bank holding company headquartered in California, based on assets of \$86 billion at June 30, 2010. UnionBanCal is a wholly owned subsidiary of The Bank of Tokyo-Mitsubishi UFJ, Ltd., and a member of the Mitsubishi UFJ Financial Group, Inc., one of the world’s largest financial organizations.

For the quarter ending June 30, 2010, the Corporation had loans totaling \$48.4 billion, total assets of \$84.3 billion and total deposits of \$66.3 billion. For 2009, a net loss of \$65 million was reported, \$59 million of which were expenses directly related to the privatization transaction by the Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU) to acquire all outstanding shares of UnionBanCal Corporation common stock. The transaction was completed in November 2008. Net income for 2008 was \$268.9 million. Copies of the latest annual report and the most recent quarterly report may be obtained at www.unionbank.com or at the Bank’s Los Angeles office, located at 445 South Figueroa Street, Los Angeles, California 90071.

Limitation of Responsibilities. The Bank is responsible only for the information contained under this caption “–The Bank,” and did not participate in the preparation of, or in any way verify the information contained in any other part of this Offering Memorandum. Accordingly, the Bank assumes no responsibility for and makes no representation or warranty as to the accuracy or completeness of information contained in any other part of this Offering Memorandum.

The Letter of Credit and Reimbursement Agreement

The following are brief summaries of certain provisions of the Letter of Credit and the Reimbursement Agreement. Reference is made to the Letter of Credit and the Reimbursement Agreement on file with the Trustee for the complete texts thereof. Capitalized terms used in this section and not otherwise defined have the meanings given in the Reimbursement Agreement.

The Letter of Credit is an irrevocable transferable obligation of the Bank. The Letter of Credit will be issued in an amount equal to the aggregate outstanding principal amount of the Series 2010A Bonds, plus 53 days' interest thereon at the rate of 12% per annum (the "Cap Interest Rate"). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized and directed to draw up to (a) an amount sufficient (i) to pay principal of the Series 2010A Bonds when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Series 2010A Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of the Series 2010A Bonds, plus (b) an amount not to exceed 53 days' of accrued interest on the Series 2010A Bonds at the Cap Interest Rate (i) to pay interest on the Series 2010A Bonds when due, and (ii) to pay the portion of the purchase price of the Series 2010A Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed, equal to the interest accrued, if any, on such Series 2010A Bonds. No drawing shall be made for Bank Bonds (as defined in the Reimbursement Agreement) or for Series 2010A Bonds bearing interest at a rate other than the Daily Interest Rate or Weekly Interest Rate or for Series 2010A Bonds owned by or on behalf of the City.

The amount available under the Letter of Credit will be automatically reduced to the extent of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing to pay interest on the Series 2010A Bonds (an "Interest Drawing"), the amount available under the Letter of Credit will be automatically reinstated effective on the fifth calendar day from the date of such drawing unless the Trustee shall have received from the Bank on or prior to such time notice that the Bank has not been reimbursed in full for such drawing or an Event of Default under the Reimbursement Agreement has occurred and as a consequence thereof the amount of such Interest Drawing shall not be reinstated and the Bank shall direct the Trustee to accelerate the Series 2010A Bonds or to cause a mandatory tender of the Series 2010A Bonds. With respect to a Liquidity Drawing, the Letter of Credit will automatically be reduced by an amount equal to the amount of said drawing. Prior to the Conversion Date (as defined below), in the event of the remarketing of any Series 2010A Bonds (or portions thereof) previously purchased with the proceeds of such Liquidity Drawing, and upon the Bank's receipt of a reinstatement certificate and receipt by the Bank of the amount set forth in such reinstatement certificate, the Letter of Credit will be automatically reinstated by the amount indicated in such certificate and actually received by the Bank.

The Letter of Credit will terminate on the earliest of the Bank's close of business on (a) the Stated Expiration Date (initially, October 18, 2013, unless terminated in accordance with the terms of the Letter of Credit or as extended or renewed from time to time pursuant to terms of the Letter of Credit and the Reimbursement Agreement); (b) the earlier of (i) the date which is five business days following the date on which all of the Series 2010A Bonds have been converted to bear interest at a rate other than the Daily Interest Rate or the Weekly Interest Rate (the "Conversion Date") or (ii) the date on which the Bank honors a drawing under the Letter of Credit on or after the Conversion Date; (c) the date of the Bank's receipt of a certificate from the Trustee specifying that no Series 2010A Bonds remain outstanding, within the meaning of the Indenture, all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, or that a substitute credit facility has been issued in

substitution for the Letter of Credit pursuant to the Indenture and the Reimbursement Agreement; (d) the date on which the Bank honors the Acceleration Drawing or a Stated Maturity Drawing, as each term is defined in the Letter of Credit; or (e) the date which is 15 days following the date the Trustee receives a written notice from the Bank specifying the occurrence of an “Event of Default” under the Reimbursement Agreement and directing the Trustee to accelerate the Bonds or to cause a mandatory tender of the Series 2010A Bonds.

Events of Default. The occurrence of any of the following constitutes an “Event of Default” under the Reimbursement Agreement.

(i) Failure by the City to pay (a) any principal of or interest on any Drawing (as defined in the Reimbursement Agreement), any Liquidity Advance (as defined in the Reimbursement Agreement) or Bank Bond (as defined in the Reimbursement Agreement) as and when due under the Reimbursement Agreement, (b) any principal of or interest on any of the Series 2010A Bonds for any reason other than the failure of the Bank to honor a properly presented and conforming drawing under the Letter of Credit as and when due or (c) any other Obligations (as defined in the Reimbursement Agreement) other than Reimbursement Obligations (as defined in the Reimbursement Agreement) within five calendar days of receipt by the City of an invoice from the Bank therefor; or

(ii) Any material representation or warranty made by the City or the Authority in the Reimbursement Agreement (or incorporated therein by reference) or in any of the other Related Documents (as defined in the Reimbursement Agreement) or in any certificate, document, instrument, opinion or financial or other statement contemplated by or made or delivered pursuant to or in connection with the Reimbursement Agreement or with any of the other Related Documents, proves to have been incorrect, incomplete or misleading in any material respect, when made;

(iii) Any “event of default” shall have occurred under any of the Related Documents (as defined respectively therein);

(iv) Default in the due observance or performance of certain covenants set forth in the Reimbursement Agreement;

(v) Default in the due observance or performance of any other term, covenant or agreement set forth in the Reimbursement Agreement and the continuance of such default for 30 days thereafter;

(vi) any material provision of the Reimbursement Agreement or any of the Related Documents ceases to be valid and binding, or the City contests any such provision, or the City or any agent or trustee on its behalf denies that it has any or further liability under the Reimbursement Agreement or any of the Related Documents to which it is a party;

(vii) the City (a) has entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (b) fails to pay, or admits in writing its inability to pay, its debts generally as they become due, (c) makes an assignment for the benefit of creditors, (d) applies for, seeks, consents to, or acquiesces in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its property, (e) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, marshalling of assets, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (f) shall take any corporate action in furtherance of any

matter described in parts (a) through (v) above, or (vii) fails to contest in good faith any appointment or proceeding described in section (viii);

(viii) a custodian, receiver, trustee, examiner, liquidator or similar official is appointed for the City or any substantial part of its respective property, or a proceeding described in section (vii)(e) above is instituted against the City and such appointment continues undischarged or any such proceeding continues undismissed or unstayed for a period of 30 or more days;

(ix) a default occurs under any evidence of Indebtedness (as defined in the Reimbursement Agreement) secured by or payable from the Net System Revenues on a basis that is senior to or on parity with the 2010 Installment Payments and the Reimbursement Obligations due under the Reimbursement Agreement issued, assumed, or guaranteed by the City or under any indenture, agreement or other instrument under which the same may be issued and such default continues for a period of time sufficient to permit the acceleration of the maturity of any such Indebtedness (whether or not such maturity is in fact accelerated); or any Indebtedness secured by or payable from the Net System Revenues on a basis that is senior to or on parity with the 2010 Installment Payments and the Reimbursement Obligations due thereunder shall not be paid when and as due (whether by lapse of time, acceleration or otherwise);

(x) any judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes in an aggregate amount in excess of \$5,000,000 is entered or filed against the City or against any of its property any payable by Net System Revenues (and not fully covered by insurance) and remain unvacated, unsatisfied, unbonded or unstayed for a period of 30 days;

(xi) (i) any of Fitch, Moody's or S&P downgrades their respective ratings of any long-term unenhanced indebtedness of the City secured by the Net System Revenues that ranks on a parity with the 2010 Installments Payments to below "BBB-" (or its equivalent) by Fitch, "Baa3" (or its equivalent) by Moody's "BBB-" (or its equivalent) by S&P or (ii) any of Fitch, Moody's or S&P suspends or withdraws their respective ratings of any long-term, unenhanced Indebtedness of the City secured by the Net System Revenues that ranks on a parity with the 2010 Installments Payments for credit-related reasons;

(xii) any pledge or security interest created by the Indenture, the Installment Purchase Contract or the Reimbursement Agreement to secure any amount due under any Series 2010A Bonds or the Reimbursement Agreement fails to be fully enforceable or fails to have the priority required under the Indenture, the Installment Purchase Contract or the Reimbursement Agreement, in either case, by reason of a final, non-appealable judgment of a court of competent jurisdiction; or

(xiii) a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on any Indebtedness of the City secured by Net System Revenues by any governmental authority with appropriate jurisdiction.

Remedies. Upon the occurrence of any Event of Default, the Bank may exercise any one or more of the following rights and remedies in addition to any other remedies herein or by law provided:

(i) Declare all Reimbursement Obligations (including obligations of the City to repay Liquidity Advances, unreimbursed Drawings and amounts owing to the Bank evidenced and secured by Bank Bonds), the obligations of the City to pay all fees and expenses specified in the Reimbursement Agreement and the Fee Letter and all other obligations of the City to the Bank arising under or in relation to the Reimbursement Agreement, including in each instance, all interest accrued thereon (collectively, the "Obligations") to be, and such amounts thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City,

provided that upon the occurrence of an Event of Default under section (vii) or (viii) under “–Events of Default” such acceleration will automatically occur without notice;

(ii) Give notice of the occurrence of an Event of Default to the Trustee, directing the Trustee to accelerate or cause a mandatory tender of the Series 2010A Bonds, thereby causing the Letter of Credit to expire 15 days thereafter;

(iii) Pursue any rights and remedies it may have under the Related Documents; or

(iv) Pursue any other action available at law or in equity.

BONDOWNERS’ RISKS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Series 2010A Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2010A Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2010A Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Series 2010A Bonds or the ability of the City to make 2010 Installment Payments. There can be no assurance that other risk factors not discussed herein will not become material in the future.

General

The 2010 Installment Payments are payable solely from Net System Revenues. If for any of the reasons described below, or for any other reason, the City does not collect sufficient Net System Revenues to pay the 2010 Installment Payments, the City will not be obligated to utilize any other of its funds, other than amounts available in the Reserve Fund and certain other amounts on deposit in the funds and accounts established under the Indenture to pay debt service on the Series 2010A Bonds. See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS–Reserve Fund.”

Letter of Credit and the Reimbursement Agreement

Concurrently with, and as a condition to, the issuance of the Series 2010A Bonds, the Authority and the City will cause the Letter of Credit to be issued by the Bank and delivered to the Trustee and Tender Agent. Under the Letter of Credit, the Trustee and Tender Agent will be entitled to draw up to an amount sufficient to pay (i) the aggregate principal of the Series 2010A Bonds or the portion of the purchase price corresponding to the principal of the Series 2010A Bonds and (ii) up to 53 days accrued interest on the Series 2010A Bonds at a rate of 12% per annum (computed on the basis of a 365-day year). The Letter of Credit has a Stated Expiration Date of October 18, 2013. The Letter of Credit may be extended at the sole option of the Bank.

If the Letter of Credit is not extended the Series 2010A Bonds will be subject to mandatory tender for purchase at the principal amount, without premium, plus accrued interest to the Purchase Date. See “THE SERIES 2010A BONDS–Optional and Mandatory Tenders for Purchase.” There can be no assurance that the Authority and the City will be able to obtain an extension of the Letter of Credit or an Alternate

Credit Facility. The Bank is under no obligation to extend the Letter of Credit beyond the Stated Expiration Date.

As provided herein under the caption “RATINGS,” the ratings on the Series 2010A Bonds are dependent on the ratings of the Bank. The Bank’s current ratings are predicated upon among other things, a level of reserves required by banking institutions. The level of reserves maintained by the Bank could change over time and this could result in a downgrading of the short-term rating on the Series 2010A Bonds. The Bank is not contractually bound to maintain its present level of reserves in the future nor is it contractually bound to maintain its current credit ratings. No provision has been made for replacement of or substitution for the Letter of Credit in the event of any deterioration in the financial condition of the Bank. For information concerning the Bank, see “THE BANK, THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT.”

The Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation, the Federal Reserve Board and other regulatory bodies. New regulations could impose restrictions upon the Bank that would restrict its ability to respond to competitive pressures. Various legislative or regulatory changes could dramatically impact the banking industry as a whole and the Bank specifically. The banking industry is highly competitive in many of the markets in which the Bank operates. Such competition directly impacts the financial performance of the Bank. Any significant increase in such competition could adversely impact the Bank.

Bankruptcy or Insolvency of the Credit Bank

The obligations of the Bank under the Letter of Credit are general obligations of the Bank and rank equally in priority of payment and in all other respects with all other unsecured obligations of the Bank. In the event of a bankruptcy or insolvency or if for any other reason the Bank fails or is unable to honor a draw on the Letter of Credit, each Bondowner would have to depend entirely on the ability of the City to pay the principal of, purchase price and interest on the Series 2010A Bonds pursuant and subject to its obligations under the Installment Purchase Contract.

Section 105 of the United States Bankruptcy Code (the “Bankruptcy Code”) empowers a bankruptcy court to issue such orders as are necessary or appropriate to carry out the provisions of the Bankruptcy Code. Court decisions discussing the enforceability of letters of credit indicate that it is possible that a bankruptcy court acting pursuant to Section 105 or other equitable powers under the Bankruptcy Code could enjoin a drawing by the Trustee or Tender Agent under the Letter of Credit or the payment by the Trustee or Tender Agent to Owners of the Series 2010A Bonds of amounts drawn under the Letter of Credit under various circumstances, including the bankruptcy or insolvency of, or of a similar event with respect to, the Bank. The Letter of Credit does not, and is not intended to, protect Owners of the Series 2010A Bonds from events affecting the Bank or its creditworthiness including, without limitation, the bankruptcy or insolvency of the Bank.

Mandatory Tender or Acceleration Upon Default Under the Reimbursement Agreement

The occurrence of an event of default under the Reimbursement Agreement may cause the mandatory tender and/or acceleration of the Series 2010A Bonds. In such event, a Bondowner whose Series 2010A Bonds are required to be tendered or accelerated may not have the opportunity to hold such Series 2010A Bonds for a time period consistent with such Bondowner’s original investment intentions. See “THE BANK, THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—The Letter of Credit and Reimbursement Agreement—*Events of Default*” and “—*Remedies*.”

Proposition 218

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of cities and counties to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C. Article XIII C provides that the initiative power shall 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 shall be applicable to all local governments. Article XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge.” On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIII C applied to rates and fees charged for domestic water use. In that 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 XIII C grants to the voters within the City the power to repeal or reduce rates and charges in a manner that would be inconsistent with the contractual obligations of the City. No assurance can be given that the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the fees and charges for the Water System, which are the source of Net System Revenues pledged by the City to make the 2010 Installment Payments.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations.

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

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

In *Howard Jarvis Taxpayers Association v. City of Los Angeles*, the Court of Appeal held that fees for water that are based upon metered amounts used are charges for a commodity and not related to property ownership and, consequently, Article XIII D does not apply to such fees. However, in a decision rendered in February 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District*, 32 Cal. 4th 409, upheld a Court of Appeals decision that water connection fees were not property related fees or charges subject to Article XIII D, while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert*

View Water Agency v. Beringson, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court's dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal published *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal.App.4th 914 (5th Dist. 2005), holding that an "in lieu" fee which is payable to the general fund of the City of Fresno from its water utility and which is included in the water rate structure of the city was invalid. In reaching its decision, the court concluded that the city's water rates were "property related" fees, governed by the limitations of Article XIII D. The City of Fresno requested a review of this decision by the California Supreme Court, which denied review. On July 24, 2006, the Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*. In dicta, the Supreme Court repeated its previous dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing water service through an existing connection were property related fees and charges under Article XIII D.

In addition to the procedural requirements of Article XIII D, under Article XIII D all property related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards: (i) the revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service; (ii) the revenues derived from the fee or charge must 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 must not exceed the proportional cost of the service attributable to the parcel; (iv) no 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, fees or charges based on potential or future use of a service are not permitted, and standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIII D (relating to assessments); and (v) no fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

The City believes that its rates comply with the foregoing standards.

Article XIII D provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies. The ability of the City to comply with its covenants under the Installment Purchase Contract and to generate Net System Revenues sufficient to make the 2010 Installment Payments may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIII C or Article XIII D by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Series 2010A 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 to the possible limitations on the ability of the City to comply with its covenants under the Indenture, the rights and obligations under the Series 2010A Bonds and 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 municipal utility districts in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Installment Purchase Contract, including its covenants to generate sufficient Net System Revenues, as a

consequence of the application of Article XIII C and Article XIII D to make the 2010 Installment Payments, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2010A Bonds.

Before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition, Proposition 218 added several requirements making it generally more difficult for counties and other local agencies to levy and maintain assessments for municipal services and programs.

Finally, Proposition 218 requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general government purposes of the City require a majority vote and taxes for specific purposes only require a two-thirds vote. The voter approval requirements reduce the flexibility of the City Council to deal with fiscal problems by raising revenue and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

System Expenses

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

Limited Recourse on Default

If the City defaults on its obligation to pay debt service on the Series 2010A Bonds, the Trustee has the right to accelerate the total unpaid principal amount of the Series 2010A Bonds outstanding and interest accrued thereon. However, in the event of a default and such acceleration there can be no assurance that the City will have sufficient funds to pay the accelerated debt service from Net System Revenues.

Initiatives; Changes in Law

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Proposition 218, were adopted as measures that qualified for the ballot through California’s initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City’s revenues or its ability to expend its revenues. There is no assurance that the electorate or the State Legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net System Revenues and adversely affect the security for the Series 2010A Bonds.

Statutory and Regulatory Impact

Laws and regulations governing transmission, treatment and delivery of water are enacted and promulgated by government agencies on the federal, State and local levels. Compliance with these laws and regulations may be costly, and, as more stringent standards are developed, these costs will likely increase. In addition, claims against the City for violations of regulations with respect to its facilities and services could be significant. Such claims are payable from Revenues or from other legally available sources.

Although the City has covenanted in the Installment Purchase Contract to fix, prescribe and collect rates and charges for the sewer service during each Fiscal Year sufficient to yield the debt service coverage required by the Installment Purchase Contract, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate Net System Revenues in the amounts required by the Installment Purchase Contract and to pay debt service on the Series 2010A Bonds. Certain potential increasing regulatory standards which could materially increase the cost to the City of providing water services.

Risk of Earthquake and Other Natural Disasters

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

In the event of a severe seismic event in or around the City, there could be substantial damage to the Water System facilities resulting in a reduction of Net System Revenues. Such reduction of Net System Revenues could have a material adverse effect on the City's ability to make timely payments of 2010 Installment Payments with respect to the Series 2010A Bonds.

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

In response, the City, the County, and the San Joaquin County Flood Control and Water Conservation District formed the San Joaquin Area Flood Control Agency ("SJAFCA"), a Joint Powers Authority created in May 1995. SJAFCA officials convinced representatives of FEMA to delay issuing the maps until SJAFCA constructed a Flood Protection Restoration Project (the "FPRP") which also took into account full-buildout within the areas in accordance with then-existing general plans. The FPRP was

completed in 1998 and consisted of flood wall and levee improvements along 40 miles of existing channel levees, 12 miles of levees, widening of the then-existing floodway with set-back levees and set-back benching, modifications to 24 bridges and the addition of two major detention basins. Updated flood insurance rate maps (“FIRMs”) were issued on April 2, 2002, permitting development within all of metropolitan Stockton and surrounding areas without further restriction due to potential flood risk.

In the aftermath of Hurricane Katrina in August 2005, the Corps of Engineers delivered letters to agencies nationwide withdrawing certification of the flood hazard maps. As a result, FEMA implemented a Flood Map Modernization effort to update existing FIRMs, policies, regulations and procedures. In particular, FEMA has placed a high priority on reviewing, identifying and certifying levees and levee systems nationwide to verify whether such levees and levee systems provide adequate flood protection in areas currently designated as within a 100-year floodplain. To assure that levees shown on modernized FIRMs still provide that level of protection, FEMA is requiring that each levee in the country be inspected and accredited.

FEMA completed inspection of the levees in the County. A preliminary FIRM was released by FEMA on May 9, 2008 (placing approximately 18,000 parcels within a 100-year floodplain) and a revised preliminary FIRM was released by FEMA on November 21, 2008 (reducing the number of parcels within the 100-year floodplain to approximately 4,000 parcels) as a result of FEMA giving the County additional time to demonstrate that levees guarding the Calaveras River and Bear Creek are adequate. The preliminary FIRM is an approximation of potential future flood plain areas and do not replace the existing official floodplain maps. Until final FIRMs are issued, the current FIRMs remain in effect. The final FIRMs become effective on October 16, 2009.

In addition, the DWR is in the process of evaluating and upgrading aging and deteriorating levees along the Sacramento and San Joaquin River Valleys and the Delta. DWR is evaluating more than 300 miles of urban project levees in these areas, with plans to later survey the entire 1,600 miles of project levees in the Central Valley of the State.

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

Risk Management and Insurance

The City employs a full-time Risk Manager, as well as safety and loss control professionals, for the prevention and mitigation of property, liability and employee claims for injury or damage. The City has maintained a program of self-insurance for many years in an amount up to \$20 million (after \$2 million self-insurance retention) for the above types of claims, including annual appropriations for self-insured losses, and professional staff for investigation and legal defense of claims and litigation.

While the City participates in a public entity insurance risk pool, the California Joint Powers Risk Management Authority (“CJPRMA”), for various risks including property protection, the City is uninsured as to earthquake damage to its Water System facilities.

Limitations on Remedies

The ability of the City to comply with its covenants under the Installment Purchase Contract and to generate Net System Revenues sufficient to pay principal of and interest with respect to the Series 2010A Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See “–Proposition 218.” Furthermore, the remedies available to the owners of the Series 2010A Bonds upon the occurrence of an event of default under the Installment Purchase Contract are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition, equity principles may limit the specific enforcement under state law of certain remedies; 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 of California 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 Series 2010A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations, or modification of their rights. Remedies may be limited since the Water Project serves an essential public purpose.

In addition to the limitations on remedies contained in the Installment Purchase Contract, the rights and obligations under the Installment Purchase Contract may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. The opinion to be delivered by Bond Counsel, concurrently with the issuance of the Series 2010A Bonds, will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the Series 2010A Bonds will be similarly qualified. See APPENDIX F–“PROPOSED FORM OF BOND COUNSEL OPINION.” In the event the City fails to comply with its covenants under the Installment Purchase Contract or the Authority fails to pay principal of and interest on the Series 2010A Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the Series 2010A Bonds.

Loss of Tax Exemption on the Series 2010A Bonds

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2010A Bonds, the City and the Authority have covenanted in the Installment Purchase Contract to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended. The interest on the Series 2010A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such Series 2010A Bonds as a result of acts or omissions of the City or the Authority in violation of this or other covenants in the Installment Purchase Contract applicable to the Series 2010A Bonds. The Series 2010A 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 Installment Purchase Contract. See “TAX MATTERS.”

Risk of Tax Audit

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (the “IRS”), the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations (which would include the issuance of securities such as the Series 2010A Bonds) is expected to increase significantly under the new TE/GE Division. There is no assurance that if an IRS examination of the Series 2010A Bonds was undertaken that it would not adversely affect the market value of the Series 2010A Bonds. See “TAX MATTERS.”

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2010A Bonds or, if a secondary market exists, that the Series 2010A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

THE AUTHORITY

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

THE CITY

The City is a municipal corporation and charter city incorporated in 1850. The City is the county seat of San Joaquin County and is located in California San Joaquin Valley, 78 miles east of the San Francisco Bay Area, 337 miles north of Los Angeles and 40 miles south of Sacramento. The County is bounded by Sacramento County on the north and by Stanislaus County on the south.

Information with respect to the City, including a summary of City debt and certain economic and demographic information, is contained in APPENDIX A. This information concerning the City is presented as general background information only. **The Series 2010A Bonds are secured solely by the 2010 Installment Payments and funds and accounts established under the Indenture, and *not* by the general fund of the City.** See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS.”

THE WATER SYSTEM

Overview

The City of Stockton Water Utility (the “Water Utility”) is one of three utilities managed, operated, and maintained by the City of Stockton Municipal Utilities Department (the “Stockton MUD”). The two other utilities are wastewater and stormwater. The Water Utility is comprised of the regional water distribution system and various well sites and reservoirs located throughout the City.

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

The City’s Water Enterprise (the “Water System”) commenced service in the northern area of the City in 1954 with 18 customers. Since 1969, the Water System has been operated as an enterprise relying solely on revenues and fees generated from the sale of water and services. The Water System receives no support from the City’s General Fund or other revenues. As of Fiscal Year 2009-10, the Water System served approximately 47,023 active customer connections.

During Fiscal Year 2009-10, the Water System supplied water, based on volume, to approximately 52.3% of the homes and businesses located within the City. The California Water Services Company (“Cal Water”), a private water company, provided water to approximately 44.2% of the City’s residents and businesses; and San Joaquin County served the remaining approximately 3.5% of residents and businesses in the Stockton Metropolitan Area. See “–Water Sources.”

Facilities

Until 1977, groundwater was the sole source of domestic water for the Stockton area. A surface water supply was established in 1977, when the Stockton East Water District (the “SEWD”), a special district water wholesaler, began operating a treatment plant. The SEWD plant currently treats up to 60,000 acre-feet per year of Calaveras River and Stanislaus River water. Following treatment, the water is distributed among the City, Cal Water, and two County Maintenance Districts in proportion to the total amount of water use that each agency comprises in the Stockton region. The City's current allocation accounts for approximately 52.3% of the SEWD plant output.

The City purchases approximately 27,000 acre feet of treated water for the Water System from SEWD pursuant to a take-or-pay contract, and pumps water from its own wells. City water is stored in six ground-level enclosed steel storage tanks with capacities ranging from 3.0 to 3.5 million gallons.

Water Distribution. The City’s water distribution facilities include approximately more than 600 miles of water lines. All service connections are metered. Included in the Water System are over 4,200 fire hydrants that are maintained by the Water System. Water management includes a substantial water conservation program with both seasonal and year-round restrictions.

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

Water Quality Testing. In accordance with Environmental Protection Agency and State Department of Public Health requirements, the Water System conducts or commissions, extensive tests and studies on the quality of water supplied to its customers to ensure that tap water is safe to drink. These requirements, which limit the amount of certain contaminants, include testing for the presence of more than 35 inorganic, biological, radioactive, volatile organic and synthetic organic constituents.

Water Supply Demand Measures and Conservation Efforts. In February 2008, the City Council adopted the City of Stockton Water Conservation Program and Project Management Plan. The City encourages customers to assist in assuring an adequate water supply by using water efficiently. The City provides financial incentives for water conservation such as rebates for high efficiency toilets and clothes washers and distribution of water conservation publications and water saving devices. Additional conservation efforts include public and school information programs and large City-owned landscape conservation programs. The City's current water conservation ordinance identifies a number of seasonal and year-round prohibited water wasting activities, including but not limited to irrigation activities between May and October.

Service Area

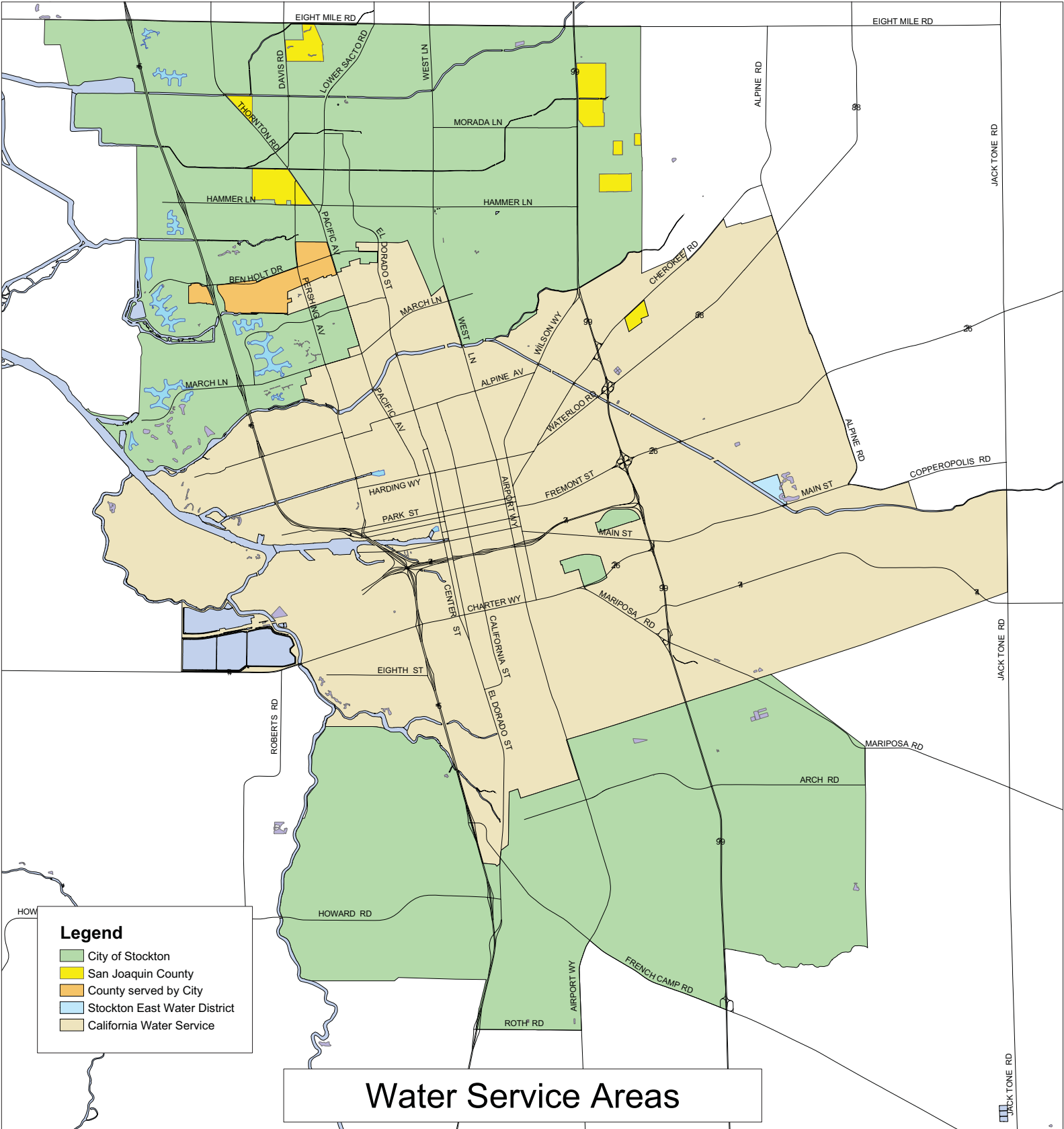
Water service to the incorporated areas of the City is primarily provided by either the Water System or Cal Water. The County and the SEWD also provide water service to some smaller areas within the Stockton Metropolitan Area.

In addition to providing water service to the North Water System, the City has provided water service to the South Water System since 1984. In 1989, the City took over the operation and maintenance of the County's Southern Water System serving the airport and the hospital/jail complex in South Stockton and also agreed to supply 100% of the water to the Lincoln Village and Colonial Heights Maintenance Districts under a long-term service agreement with the Districts that expire in 2035.

The City also provides water service to the Diamond Walnut Plant in South Central Stockton, an area which is completely surrounded by the Cal Water service area.

See page 39 for a map of the Water System Service Area.

(Remainder of this Page Intentionally Left Blank)



Water Supply

Overview. All urban water suppliers in the State are required to prepare an Urban Water Management Plan (a “UWMP”) to provide information about an urban water supplier’s water supplies, water supply reliability, water conservation, water shortage contingencies, and recycled water usage. The UWMP is required to be updated at least once every five years on or before December 31, in years ending in five and zero. As defined in Section 10617 of the State Water Code, an “urban water supplier” is a supplier, either publicly or privately owned, that provides water to more than 3,000 customers or supplies more than 3,000 acre-feet of water annually on a wholesale or retail basis or both. As an urban water supplier, the current UWMP (the “2005 UWMP”) for the Stockton MUD was prepared in 2005 and adopted by City Council on December 6, 2005.

The Water System has three current major supply sources: (i) water produced by the Water System’s own wells (ii) the water purchased from the Irrigation District pursuant to the terms of the WID Contract and (iii) treated surface water which is purchased through a long-term contract from the SEWD, which expires on April 1, 2035. The Water System has been receiving treated surface water from SEWD since 1977. Use of this water source has enabled the City to reduce the extraction of groundwater. The quality of the surface water delivered to the City from SEWD meets all requirements set by the State and federal government. From April 1, 2009 to March 31, 2010, the SEWD water treatment plant delivered 50,080 acre-feet of water, with 27,221 acre-feet (or 54%) going to the City. Pursuant to the SEWD contract, water is allocated pro rata between the Water System, California Water Service Company, and San Joaquin County based on the prior year’s water demand.

A third consecutive year of dry conditions in the northern Sierra Nevada lead to the Governor of the State of California issuing a proclamation on February 27, 2009 declaring a Statewide drought emergency. The proclamation requests that all urban water users in the State increase water conservation and directs that various State agencies take action to address impacts of the drought. The State Department of Water Resources (the “DWR”) issued a report on drought conditions on March 30, 2009, pursuant to the proclamation, concluding that increased spring precipitation did not improve the State’s overall water supply situation enough to make up for two previous dry years and low reservoir conditions. The report listed DWR’s anticipated actions to address the drought, including expediting distribution of State bond funds for water management projects; planning, proposing legislation and providing public education for Statewide water conservation; finalizing plumbing standards for use of recycled water inside buildings; and preparing a contingency plan in case of drought continuing in 2010.

In accordance with the Water Conservation Ordinance adopted by the City Council in 1988 and the Water Shortage Emergency Ordinance adopted by the City Council in 1991 into the Stockton Municipal Code and the 2005 UWMP, in the event of a water shortage emergency, the City developed a five stage rationing plan, which range from voluntary (Stage 1, setting a 10% reduction goal) to mandatory (Stage 5, setting a 50% or greater reduction goal) rationing, depending on the causes, severity, and anticipated duration of the water supply shortage. The City was last in a mandatory reduction stage from 1990 through 1992. The Water System is currently operating under a Stage 1 (voluntary) water shortage emergency and customers have been requested to adjust either interior or outdoor water use, in order to meet the voluntary 10% water reduction goal.

In order to mitigate the financial impacts of a water shortage, the City established a practice of maintaining a contingency reserve as part of its Water Fund. The goal is to maintain a fund reserve equivalent to six months of minimum operating expenses, using a three-year trend to project the actual amount. This contingency reserve will be used to stabilize rates during periods of water shortage or disasters

affecting the water supply. By utilizing this method, the City does not anticipate needing to increase rates as much or as often during a prolonged or severe shortage.

SB No. 7. On November 10, 2009, the Governor signed into law Senate Bill No. 7 (“SB 7”) which SB 7 requires, among other things, that the State achieve a 20% reduction in urban per capita water use by December 31, 2020, by reducing per capita water use by at least 10% over baseline use, on or before December 31, 2015. SB 7 also requires each urban retail water supplier (including the City) to develop urban water use targets and an interim water use target in accordance with specified requirements. The City contracted with West Yost Associates to determine interim and final per capita water use targets, identify the appropriate base year, evaluate and recommend an appropriate method for developing the urban water use targets and assist with the public hearing process required to adopt the baseline method to be used. The City expects to adopt a per capita water use target in January 2011.

Following the completion of the Water Project, the City expects to reduce its purchase of treated surface water from SEWD by more than 33% and reduce groundwater pumping by approximately 65%. See “THE WATER PROJECT.”

Sources. The Water System currently has two current major supply sources: (i) water produced by the Water System’s own wells and (ii) treated surface water which is purchased through a long-term contract from the SEWD, which expires on April 1, 2035.

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

Historically, the groundwater pumping in the area in Eastern San Joaquin County has exceeded the rate of recharge, lowering the groundwater level. The State of California has listed the Eastern San Joaquin Basin as in “a critical condition of overdraft.” Although the overdraft situation has improved primarily in the urban area due to less groundwater being pumped in recent years, the overdraft of the groundwater supply has caused a deterioration of the water quality in some areas due to the intrusion of poor quality water from the California Delta, primarily in areas south and west of the City.

Until September 30, 2009, the City, the SEWD, Cal Water, and the San Joaquin County had a contract to purchase up to 30,000 acre feet per year of water from the Oakdale and the South San Joaquin Irrigation Districts which have senior water rights to water from the Stanislaus River. A new contract with the South San Joaquin Irrigation District was approved on May 12, 2009 and provides for 15,000 acre-feet per year for 10 years commencing October 1, 2010.

Purchased Water. The Water System has been receiving treated surface water from SEWD since 1977. Use of this water source has enabled the City to reduce the extraction of groundwater. The quality of the surface water delivered to the City from SEWD meets all requirements set by the State and federal government. From April 1, 2008 to March 31, 2009, the SEWD water treatment plant delivered 48,700

acre-feet of water, with 26,800 acre-feet (or 55%) going to the City. Pursuant to the SEWD contract, water is allocated pro rata between the Water System, California Water Service Company, and San Joaquin County based on the prior year's water demand.

North Water System. The North Water System utilizes both surface and groundwater as sources of supply. All surface water for the North Water System is purchased from the SEWD and stored in two sites providing temporary water storage for up to 15 million gallons. In recent years, approximately 72% of the North Water System water has been purchased from SEWD. Groundwater for the North Water System is obtained from 26 City wells that provide approximately 11.1 mgd.

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

Diamond Walnut Water System. The Diamond Walnut Water System is supplied by surface water obtained from transferring (or wheeling) SEWD water through the Cal Water System. Because one of the three wells in the Diamond Walnut Plant area has contaminant problems and it is more stable and less costly to use surface water instead of water wells in that area, once a redundant connection is established with Cal Water, which is expected to be completed in December 2010, the three remaining wells will be taken out of service.

Delta Water. On March 8, 2006, the City of Stockton received its first Water Rights Permit (Permit No. 21176) from the State Water Resources Control Board to divert up to 33,600 acre-feet per year from the Delta. In compliance with Water Code Section 1485, the City is authorized to divert from the Delta an amount less than or equal to the amount of properly treated effluent discharge from the Regional Wastewater Control Facility to the Delta, based on a 15-day running average.

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

**Table 3
City of Stockton
Water System
Historic Water Production and Consumption
(in million gallons)**

<u>Fiscal Year</u>	<u>Groundwater Production</u>	<u>SEWD North Water System</u>	<u>SEWD South Water System</u>	<u>Diamond Walnut Water System</u>	<u>Total Production</u>	<u>Total Consumption</u>
2005-06	4,541	3,080	3,987	162	11,770	11,689
2006-07	4,508	6,442	1,864	120	12,934	12,280
2007-08	3,826	6,786	2,323	90	13,025	11,904
2008-09	2,620	6,216	2,101	68	11,005	10,284
2009-10	2,047	7,084	2,255	81	11,467	10,017

Source: City of Stockton, Municipal Utilities Department.

Water Treatment and Regulatory Matters

Public drinking water supplies in the State, including the Water System, are subject to increasingly stringent State and federal water quality standards. The City's drinking water is sampled and tested on an ongoing basis from all parts of the Water System to ensure that it meets or surpasses all primary (health related) and secondary (aesthetic) regulatory standards established by the United States Environmental Protection Agency ("EPA") and the State of California Department of Public Health (the "Department").

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

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

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

Permits and Other Regulations. The City operates a permit under a State of California Department of Health Service Water Supply Permit No. 390012. The permit does not have an expiration date, and the permit is revised, modified or re-issued as necessary. The City is in compliance with the permit.

Capital Improvement Program

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

In March 2000, the City's voters approved "Measure U" which made changes to the City Charter that relate to the CIP. Measure U changed the timeline for City Staff to submit the CIP to the City's Planning Committee and the City Council for approval.

The most recent CIP for 2010-15, was adopted by the City Council on June 22, 2010. The CIP includes more than \$3.5 million in Water System projects budgeted for Fiscal Year 2010-11, including funding for improvements and expansion of the water distribution system, and improvements to reservoirs and other sites. For a description of the Water Project, see “THE WATER PROJECT.”

Termination of Service Contract

On February 18, 2003, the City Council approved a Service Contract for Wastewater, Water, and Stormwater Utilities Capital Improvements and Asset Management between the City of Stockton and OMI/Thames Water Stockton (“Service Contract”). The Service Contract set forth the obligations of the respective parties for the operation and maintenance of the City’s utilities for a 20-year period.

On April 7, 2003, the City was served with a complaint (*Concerned Citizens Coalition of Stockton v. City of Stockton, Case No. CV020397*) alleging that the City violated the California Environmental Quality Act (“CEQA”) by awarding the Service Contract to OMI/Thames Water Stockton (“OMI/Thames”) to manage and operate the City’s utilities without conducting an environmental review assessing the risks of a public-private partnership.

Following a rehearing of the case in August 2006 and a ruling in favor of the Concerned Citizens Coalition of Stockton (the “Coalition”), a Judgment and Writ of Mandate was issued by the Court ordering the City and/or OMI/Thames to (1) rescind Resolution No. 03-0081 (the resolution approving the Service Contract); (2) rescind the Service Contract; (3) rescind the Notice of Exemption filed for Resolution No. 03-0081 that stated the City’s belief that approval of the Service Contract was exempt from CEQA; (4) cease any and all activities taken by the City and OMI/Thames to approve or implement the Service Contract; and (5) refrain from reapproving the Service Contract unless and until an appropriate CEQA review has been completed. In addition, the Writ of Mandate required that the City and OMI/Thames suspend any and all activities to further implement or further approve the Service Contract except as needed to: (1) effectively operate and manage the utilities (including maintenance), (2) effectuate the City’s resumption of management and control of the utilities, or (3) prepare any needed CEQA documentation. The City filed an appeal.

On July 17, 2007, the City Council unanimously approved: (i) execution of a settlement agreement with the Coalition (the “Coalition Settlement Agreement”) whereby the City agreed to dismiss the appeal, provided that the effect of the Judgment and Writ of Mandate be stayed so that the City had until March 1, 2008 to comply with its terms, including the termination of the Service Contract; (ii) payment of attorneys fees to the Coalition in the amount of \$1,975,000 (the “Coalition Settlement Payment”) in exchange for a full release of further liability from the Coalition; and (iii) settlement of all potential and future claims for or against OMI/Thames. Each of the Water System, Wastewater System and Stormwater System was responsible for paying its proportional share of the Coalition Settlement Payment based upon the Fiscal Year 2007-08 budget for each System. The result was that approximately 36% of the Coalition Settlement Payment was paid from then-current revenues of the Water System, approximately 55% was paid from then-current revenues of the Wastewater System and the remaining amount, representing approximately 9%, was paid from then-current revenues of the Stormwater System. The City paid the Coalition Settlement Payment in full on August 14, 2007.

In compliance with the terms of the Judgment and Writ of Mandate, the City and OMI/Thames entered into a Partial Settlement Agreement and Release dated July 17, 2007 (the “OMI/Thames Partial Settlement Agreement”) to: terminate the Service Contract; provide for completion of certain capital improvements, including the improvements to the Stockton Regional Wastewater Control Facility (the “RWCF”) required to comply with the terms of a Cease and Desist Order (described below); provide for

the operation and maintenance of the Systems until February 29, 2008 (the “Termination Date”); and provide for the transition of the operation and maintenance of the Systems to the City by the Terminate Date. The OMI/Thames Partial Settlement Agreement also required that OMI/Thames warrant construction of the capital improvements, retain regulatory liability for operations of the RWCF, including liability for the payment of any penalties associated with the failure to complete the improvements to the RWCF by September 10, 2007, and liability for design errors through the 10-year warranty period.

The Cease and Desist Order (to which the City received a stay from the California Regional Water Quality Control Board, Central Valley Region (the “RWQCB”) until September 10, 2007, provided the City with time to comply with the regulatory requirements for the reuse of wastewater, the removal of solids and certain pathogens, and the significant reduction of certain pollutants (as set forth in the California Code of Regulations, Title 22, Division 4, Chapter 3) (the “Title 22 Requirements”). The improvements to the Stockton RWCF were substantially completed by OMI/Thames in April 2007, and following the successful completion of testing, such improvements were accepted by the City in December 2007.

On March 1, 2008, the City resumed operation and maintenance of the Water System, the Wastewater System and the Stormwater System from OMI/Thames.

On April 29, 2008 the City adopted Resolution No. 08-0150 approving the Termination, Transition and Settlement Agreement and Mutual Release between the City and OMI/Thames.

Water System Users

Customer Base. As of Fiscal Year 2009-10, the Water System had 47,023 active connections made up primarily of residential customers. Table 4 sets forth a five-year history of Water System users.

Table 4
City of Stockton
Water System
Customer Base by Type of Account and Number of Connections
(Fiscal Years)

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11[†]</u>
Residential	44,423	43,665	44,074	44,736	44,818
Commercial/Industrial	1,352	1,388	1,412	1,414	1,423
Landscape Irrigation	<u>830</u>	<u>848</u>	<u>865</u>	<u>873</u>	<u>866</u>
TOTAL	46,605	45,901	46,351	47,023	47,107

[†] Estimated.

Source: City of Stockton, Municipal Utilities Department.

Largest Users by Flow. The table below shows the 10 largest users of the Water System based on consumption for Fiscal Year 2009-10.

**Table 5
City of Stockton
Water System
Ten Largest Accounts by Annual Consumption
Fiscal Year 2009-10
(in ccf)[†]**

<u>Name</u>	<u>Type of Business</u>	<u>Fiscal Year 2009-10 Consumption</u>	
		<u>Amount</u>	<u>Percent</u>
Runway Drive, LP	Bottled Water Manufacturer	171,016	1.37%
San Joaquin County Hospital	County Hospital	79,716	0.64
Sodexo, Inc.	Commercial Laundry	73,655	0.59
San Joaquin County Sheriff	Government/ Law Enforcement	64,726	0.52
Lodi Unified School District	School District	37,401	0.30
Cintas Corporation	Uniform Supply	36,020	0.29
Shadow Lake Mobile Home Park	Mobile Home Park	32,747	0.26
City of Stockton Maintenance District B3	City Park	32,209	0.26
Lodi Unified School District	School District	29,675	0.24
The Pavilions Apartments	Apartment Complex	<u>26,310</u>	<u>0.21</u>
SUBTOTAL		583,475	4.68
All Others	Various	<u>11,890,987</u>	<u>95.32</u>
TOTAL		12,474,462	100.00%

[†] One ccf is equal to 748 gallons.
Source: City of Stockton, Utility Billing.

(Remainder of this Page Intentionally Left Blank)

Largest Users by Revenue. The table below shows the 10 largest users of the Water System based on revenue for Fiscal Year 2009-10.

**Table 6
City of Stockton
Water System
Ten Largest Accounts by Revenue
Fiscal Year 2009-10**

<u>Name</u>	<u>Type of Business</u>	<u>Fiscal Year 2009-10 Revenue</u>	
		<u>Amount</u>	<u>Percent</u>
Runway Drive, LP	Bottled Water Manufacturer	\$171,504	0.70%
San Joaquin County Hospital	County Hospital	89,309	0.37
Sodexo, Inc.	Commercial Laundry	89,586	0.37
San Joaquin County Sheriff	Government/ Law Enforcement	71,073	0.29
Lodi Unified School District	School District	37,943	0.16
Cintas Corporation	Uniform Supply	36,537	0.15
Shadow Lake Mobile Home Park	Mobile Home Park	41,099	0.17
City of Stockton Maintenance District B3	City Park	26,783	0.11
Lodi Unified School District	School District	30,654	0.13
The Pavilions Apartments	Apartment Complex	<u>27,748</u>	<u>0.11</u>
SUBTOTAL		622,235	2.56
All Others	Various	<u>23,710,380</u>	<u>97.44</u>
TOTAL		\$24,332,615	100.00%

Source: City of Stockton, Utility Billing.

Outstanding Existing Parity Lien Obligations

The table below summarizes the outstanding Existing Parity Lien Obligations as of June 30, 2010.

**Table 7
City of Stockton
Water System
Outstanding Existing Parity Lien Obligations
(As of June 30, 2010)**

<u>Obligation</u>	<u>Total Amount Outstanding</u>	<u>Final Maturity Date</u>
Federal Drought Relief Act Loan	\$548,707.71	July 1, 2017
California Statewide Communities Development Authority	10,070,000.00	October 1, 2022
Water Revenue Bonds, Series 2005	24,230,000.00	October 1, 2035

Organization and Management

Overview. Since the termination of the Service Contract in (see “*Termination of Service Contract*”) the Water System has been operated under the management and control of the City Council. Current day-to-day management is provided by Mark J. Madison, the Director of Stockton MUD and Robert Granberg, Deputy Director of Water Resources, under the general supervision of Bob Deis, the City Manager.

As part of the Stockton MUD, the Water Utility, with approximately 187 full-time equivalent employees, is managed by Mark J. Madison. The organization the Water System is presented in the organizational chart on the following page. The Water Utility also receives services from other departments within Stockton MUD, including engineering, administration, construction, development and environmental control.

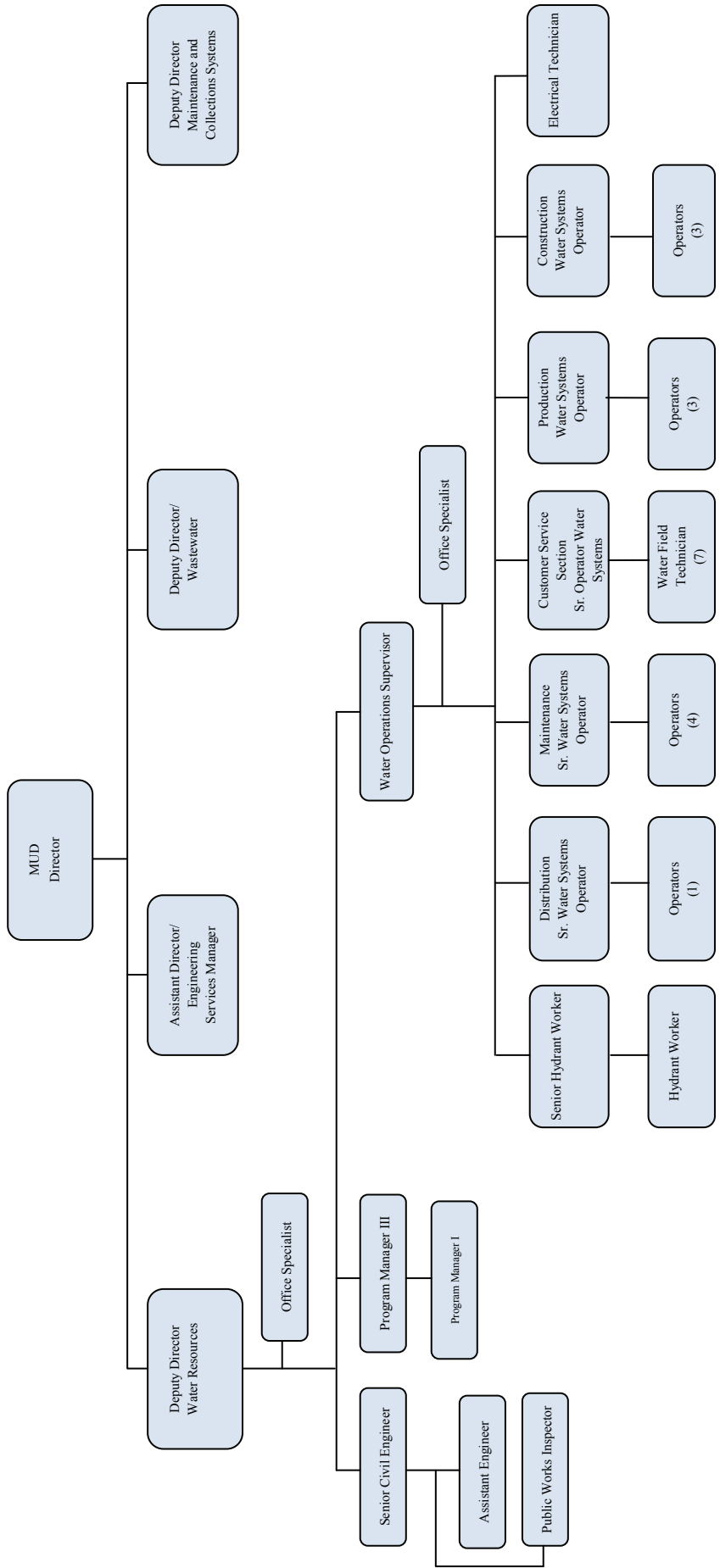
The Water Utility reports to, and receives guidance from, the City Manager, the Water Advisory Group, the City Council Water Committee, the City Council, and the Mayor.

Water Advisory Group. In 2009, a Water Advisory Group (the “WAG”) was established by Resolution No. 09-0279 of the City Council to advise and make recommendations to the Council Water Committee (described below) on current and future issues impacting the Water, Wastewater and Stormwater Utilities of the City, including review of Stockton MUD monthly operations and maintenance reports. The Water Advisory Group is comprised of seven members who reside within one of the service areas of the City’s three Utilities. One candidate is nominated by each Council member and the Mayor and the candidates are ratified by the full City Council.

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

(Remainder of this Page Intentionally Left Blank)

Water System Organizational Chart



The Water Utility acts within the legal parameters of the City Charter, the Municipal Code and in accordance with the laws of the State. The Water Utility is regulated at the State level by the State Water Resources Control Board and the Department of Public Health Services. At the federal level the Water Utility is regulated by the Environmental Protection Agency. See also “–Water Treatment and Regulatory Matters.”

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

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

Mark J. Madison, Director of Municipal Utilities. Mr. Madison has been the Stockton MUD Director since 2003 and is responsible for the general management of the Water System. Mr. Madison joined the City in 1990 as an assistant civil engineer and has worked in the water/wastewater industry for more than 19 years.

Prior to becoming Director of Municipal Utilities in 2003, Mr. Madison served as the Assistant Director, where he assisted in the general management of the City’s three municipal utilities. As the Assistant Director, Mr. Madison was responsible for the planning, budgeting, design, and construction of all Stockton MUD capital improvement projects. Under Mr. Madison’s supervision the Engineering Division of Stockton MUD was responsible for the City’s utility planning efforts and for providing general technical assistance to other Divisions, City departments and the general public. Notable projects completed in the City under Mr. Madison’s leadership include the Southern Industrial Trunk Water Improvements and the Recycled Water Market Evaluation. In addition, Mr. Madison played a leading role in water supply planning efforts for the Stockton Metropolitan Area, including the acquisition of the City’s first water rights permit to divert water from the Delta.

Mr. Madison holds a bachelor’s degree in Agricultural Engineering from California Polytechnic State University, San Luis Obispo, and is a registered Civil Engineer in the State. Mr. Madison is also a member of the American Public Works Association, the American Water Works Association and the Groundwater Resources Association.

Robert Granberg, Deputy Director of Water Resources. Mr. Granberg is a licensed Civil Engineer in the state of California having graduated from Washington State University in 1989 with a Bachelor of Science degree in Civil Engineering. He spent the first 8 years of his professional career in Los Angeles with 4 years in Public Works and 4 years with the Department of Airports. After serving as construction manager for the City of Salem Oregon, he came to the Stockton Municipal Utilities Department in 1998 as a project manager overseeing construction of wastewater treatment plant facilities and other utility projects, most notably the Southern Industrial Trunk Sewer Replacement project. Mr. Granberg moved to the City of Modesto where he gained experience in development prior to returning in May of 2004 as Deputy Director of Water Resources. Mr. Granberg’s main focus for the Department is the development and management of water supplies for the City of Stockton including the Water Project.

Employee Benefits

Pension Plans. Substantially all full-time City employees, including employees of the Water Utility, are eligible to participate in retirement benefit plans through a contract with the California Public Employees’ Retirement System (“PERS”), a multiple-employer public sector employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. PERS acts as a common investment and administrative agent

for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments.

PERS maintains a Miscellaneous Plan (the “Miscellaneous Plan”) with respect to non-safety employees on behalf of the City. The City contributes to PERS amounts equal to the recommended rates for the Miscellaneous Plan multiplied by the payroll of those current employees of the City, including the Water Utility, who are eligible under PERS. As of June 30, 2010, there were a total of 904 full-time equivalent City employees participating in the Miscellaneous Plan of which 187 (or approximately 21%) were employed by the Water Utility.

The City also provides a Retirement Enhancement Plan (the “REP”) to cover retirement benefits for Utility Department employees for the period of time they worked for OMI-Thames Water Stockton. See “–*Termination of Service Contract.*”

California Public Employees’ Retirement System. *The following information concerning the California Public Employees’ Retirement System is excerpted from publicly available sources, which the City believes to be accurate. PERS is not obligated in any manner for payment of debt service on the Series 2010A Bonds and the assets of PERS are not available for such payment. PERS should be contacted directly at California Public Employees’ Retirement System, Lincoln Plaza Complex, 400 Q Street, Sacramento, California 95814, Telephone: 888-225-7377 for other information, including information relating to its financial position and investments.*

Set forth below is information with respect to the Miscellaneous Plan for the entire City. PERS does not prepare nor are separate reports available for the Water Utility.

The City contributes to PERS, an agent, multiple-employer, public employee, defined benefit, pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS’ annual financial report may be obtained from their executive office: Lincoln Plaza North, 400 Q Street, Sacramento, California 95814.

The staff actuaries at PERS release actuarial valuations of the Miscellaneous Plan in the later fall of each calendar year based on data through June 20 of the preceding Fiscal Year. The actuarial valuation expresses the City’s required contribution rates in percentages of payroll, which percentages the City contributes in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City’s contribution rates derived from the actuarial valuation as of June 30, 2008, which were effective during the City’s Fiscal Year 2008-09). PERS rules require the City to implement the actuary’s recommended rates.

In calculating the annual actuarially required contribution rates, the PERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that PERS will fund under the Miscellaneous Plan, which includes two components, the normal cost and the Unfunded Accrued Actuarial Liability (the “UAAL”). The normal cost represents the actuarial present value of benefits that PERS will fund under the Miscellaneous Plan that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that PERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits earned through the valuation date by retirees and active employees. The UAAL is based on several assumptions such as, among others, the rate of investment return, life expectancy, 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 is an estimate of the unfunded actuarial present value of the benefits that the City will fund under the Miscellaneous Plan to retirees and active employees upon their retirement and is not as a fixed or hard expression of the liability the City owes to PERS under the Miscellaneous Plan.

In the actuarial valuation, the PERS actuary calculates what was the expected actuarial value of the assets (the "Actuarial Value") of the Miscellaneous Plan at the end of the Fiscal Year (which assumes, among other things, that the actuarial rate of return during that Fiscal Year equaled the assumed rate of investment return of 7.75%). The PERS actuary uses a smoothing technique to determine the Actuarial Value, calculated on certain policies.

In November 2009, PERS estimated on a preliminary basis that the funded status based on the market value of assets had at that time fallen from 84.9% to 55.4% with an unfunded actuarial liability of \$50.6 billion, based on the market value of assets and assuming a 7.75% rate of return. If a more conservative rate of return is assumed, then the unfunded actuarial liability would be significantly increased, and the state contribution level would increase.

Because of the rate stabilization methods adopted by the PERS board in April 2005 and in August 2009, the impact of current market returns, and in particular, the Fiscal Year 2008-09 investment loss, on employer rates for the future will be mitigated. When PERS sets rates, the actuarial value of assets cannot be more than 120% of the market value nor less than 80% of the market value. Any asset value changes outside these ranges will result in a greater impact on future employer contributions.

The negative 5.1% return for Fiscal Year 2007-08 used up about 13% of the 14% set aside for the "rainy day" fund. The remaining 1% was used in developing employer contribution rates for Fiscal Year 2009-10. It is important to note, that as described in PERS Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008, in recent years, the demographic experience of most plans translated to increases in employer rates.

PERS' rate stabilization methods help to mitigate short term increases in the City's required annual contribution. While this will limit an extreme increase in the required annual contribution to PERS in the near term, absent extraordinary investment returns (over and above 7.7% assumed by PERS), it is expected to result in significantly higher required contribution in future Fiscal Years. Depending on actual investment returns and other factors, the required annual contribution could increase by 50% or more.

Although the investment horizon for pension plans is long term, PERS recognizes that investment returns over the short term fluctuate and can lead to volatile employer contribution rates, despite the current smoothly policy in place. Announced in August 2009, PERS has implemented an enhancement to their current rate stabilization method, which will utilize a 3-year phase-in of the negative 23% Fiscal Year 2008-09 investment loss.

According to PERS, the 3-year phase-in of Fiscal Year 2008-09 investment loss is achieved by temporarily relaxing the constraints on the smoothed value of assets. Previously, the actuarial value of assets could not be more than 120% of the market value nor less than 80% of the market value. Under the 3-year phase-in, assets are treated as follows:

1. For Fiscal Year 2011-12, the actuarial value of assets cannot be more than 140% of the market value nor less than 60% of the market value on June 30, 2009.
2. For Fiscal Year 2012-13, the actuarial value of assets cannot be more than 130% of the market value nor less than 70% of the market value on June 30, 2010.

3. For Fiscal Year 2013-14, the actuarial value of assets cannot be more than 120% of the market value nor less than 80% of the market value on June 30, 2011, a return to the previous values.

Lastly, the asset loss outside of the 80% - 120% will be isolated, and paid down with a fixed and certain 30-year amortization schedule. By utilizing a fixed and certain 30 year payment schedule, these losses will be paid in full at the end of 30 years, and will be independent of any investment gain/loss experienced by the remaining portfolio as a whole.

The level of future required contributions depends on a variety of other factors, including future investment portfolio performance, actuarial assumptions and additional potential changes in retirement benefits. There can be no assurance that the required annual contribution to PERS will not continue to significantly increase, despite the recent enhancement to rate stabilization methods, and that such increases will not materially adversely affect the financial condition of the State.

Complete updated inflation and actuarial assumptions can be obtained by contacting PERS at the address shown above.

Funding Status. An actuarial valuation of assets differs from a market valuation of assets in that an actuarial valuation reflects so-called smoothing adjustments which smooth the impact of gains and losses over multiple years. As of June 30, 2008, the most recently valuation date, the Miscellaneous Plan was approximately 93.8% funded. The actuarial accrued liability for benefits was \$491,467,308 and the actuarial value of assets was \$460,950,390, resulting in unfunded actuarial accrued liabilities (UAAL) of \$30,516,918. The covered payroll (annual payroll of active employees covered by the plan) was \$66,743,768 and the percentage of the UAAL to covered payroll was 45.7%. As a result, even if the market rate of return of the assets in the Miscellaneous Plan is above the actuarial assumed rate of 7.75% in future Fiscal Years, the actuarial practice of smoothing losses over several years may cause the investment rate of return for actuarial purposes to be less than the market rate of return.

The PERS investment return for Fiscal Year 2008-09 was negative 23.4%. For the six month period ended December 31, 2009, PERS experienced a net investment gain of 12.57%.

Table 8
City of Stockton
PERS Miscellaneous Plan
Schedule of Funding Progress

Valuation Date	Accrued	Actuarial	Unfunded Liability (UL)	Funded Ratios		Annual Covered Payroll (c)	UL as % of Payroll [(a)-(b)]/(c)
	Actuarial Liability (a)	Value of Assets (AVA) (b)		(AVA)	Market Value		
06/30/04	\$366,460,118	\$321,947,380	\$44,512,738	87.9%	86.5%	\$50,602,143	88.0%
06/30/05	393,457,559	345,177,129	48,280,430	87.7	90.4	51,317,103	94.1
06/30/06	421,341,956	370,043,659	51,298,297	87.8	93.3	53,640,119	95.6
06/30/07	453,621,297	434,989,302	18,631,995	95.9	110.4	57,119,972	32.6
06/30/08	491,467,308	460,950,390	30,516,918	93.8	95.1	66,743,768	45.7

Source: City of Stockton—Audited Financial Statements for the Year Ended June 30, 2009.

Funding Policy. Miscellaneous Plan participants are required to contribute 7% of their annual covered salary. As part of the City employee's benefit package, the City makes the contributions required of City employees on their behalf and for their account. The City, as employer, is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the City are established and may be amended by PERS. Total employer contributions based on actuarially determined rates amounted to \$7,610,392 for Miscellaneous Plan employees for the year ended June 30, 2009 and \$8,226,273 for Miscellaneous Plan employees for the year ended June 30, 2010.

Annual Pension Cost. For Fiscal Year 2008-09, the City's total Miscellaneous Plan annual pension costs were \$6,681,994. The annual pension costs were less than the City's required and actual contributions in the amount of \$7,331,594 due to interest earnings on the net pension asset offset by the adjustment of the annual required contribution. The required contribution rates were determined as part of the June 30, 2006 actuarial valuations using the Entry Age Normal Cost actuarial cost method with contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary depending on age, service, and type of employment from 3.25% to 14.45%; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. The actuarial value of the Miscellaneous Plan's assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period. The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Pension Asset. The City prepaid its Annual Required Contributions (ARC) with proceeds from the 2007 Taxable Pension Obligation Bonds Series A and Series B. This prepaid pension asset was determined in accordance with the provisions of GASB Statement No. 27 and represents contributions in excess of Annual Required Contributions. The pension asset is being amortized over a 30-year period. The pension asset balance at June 30, 2009 was \$35,459,693 for the Miscellaneous Plan.

Table 9
City of Stockton
PERS Miscellaneous Plan
Three-Year Trend Information
(\$ in thousands)

<u>Fiscal</u> <u>Year</u>	Annual Pension Cost <u>(APC)</u>	Actual <u>Contributions</u>	Percentage of APC <u>Contributed</u>	Pension <u>Asset</u>
6/30/2009	\$6,682	\$7,332	110%	\$35,460
6/30/2008	6,065	6,736	111	34,810
6/30/2007	8,787	42,926	489	34,139

Source: City of Stockton Audited Financial Statements for the Year Ended June 30, 2009.

City of Stockton Retirement Plan Enhanced Plan. The City entered into an agreement with Public Agency Retirement Services (a public sector retirement plan administrator specializing in providing public entities customized retirement plans and solutions) to contribute to a supplemental plan for employees joining or re-joining city service after having been employed between 2003 and 2008 by OMI-Thames. OMI-Thames employees did not earn PERS service credit during the period of time OMI-Thames operated the City utilities. Upon retirement, the REP benefits will supplement any PERS retirement for which those particular employees are eligible. Eligibility for REP, other than employment with OMI-Thames between 2003 and 2008, is defined as concurrent retirement with PERS and the City upon attaining age 55 and a minimum of five years of full-time continuous service with the City, with at least one year of continuous City service after March 1, 2008.

Funding Policy. The City is required to make contributions at an actuarially determined rate. The rate for members of the REP was 9.16% of annual covered payroll. As part of the OMI-Thames relinquishment agreement, the City pays for the entire benefit obligation. A level dollar contribution amortized over 20 years is used to determine the City contribution. The contribution requirements of the plan may be amended depending on future actuarial valuations and earnings levels.

Table 10
City of Stockton
Retirement Enhancement Plan
Contribution Requirements
(\$ in thousands)

Valuation Date	Accrued Actuarial Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL as % of Payroll [(1)-(2)]/(3)
03/01/08	\$4,845	–	\$4,845	0.0%	\$5,740	84.43%

Source: Milliman and Associates.

Annual Pension Cost. For the year ended June 30, 2009, the City’s REP annual pension costs was \$1,247,578. The required contribution rate was determined as part of the March 1, 2008 actuarial valuation, using the entry age normal actuarial cost method with contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.05 investment rate of return (net of administrative expenses); (b) projected salary increases that vary based on years of service from 3.25% to 12.65%; (c) inflation of 3.00%; (d) payroll growth of 3.25%. The actuarial value of the REPs assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over time. The City’s REPs unfunded actuarial accrued liability is being amortized as a level dollar amount over a 20 year amortization period. Based on the actuarial valuation dated March 1, 2008 (most recent valuation), the remaining amortization period as of June 30, 2009 was 18 years.

Funded Status and Funding Progress. The REP began on March 1, 1998. As of June 30, 2008, the most recent actuarial valuation date, the REP was 0% funded. The actuarial accrued liability (AAL) for benefits was \$4,845,818 and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,845,818. The covered payroll (annual payroll of active employees covered by the ERP) was \$5,739,523 and the percentage of the UAAL to covered payroll was 84.43%.

The scheduled progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Table 11
City of Stockton
Retirement Enhancement Plan
Trend Information
(\$ in thousands)

Fiscal Year	Annual Pension Cost (APC)	Actual Contributions	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	\$1,248	\$1,248	100%	-

Source: City of Stockton—Audited Financial Statements for the Year Ended June 30, 2009.

Healthcare Insurance Premiums. The City also provides health benefits to certain employees and their dependents for medical, dental and vision care. For Fiscal Years 2007-08, 2008-09 and 2009-10, the City paid premiums in the amount of \$325,196, \$907,358 and \$1,081,632, respectively for Water Utility employees. For Fiscal Year 2010-11, the amount paid for premiums for Water Utility employees is budgeted to be \$1,310,885. Each employee and dependent is covered by a life insurance policy and the employee also is covered by a long-term disability policy.

Life insurance benefits are based upon the bargaining unit to which the employee is associated. Life insurance benefits following retirement are continued at the same benefit level and conditions as active employees except that after age 65 a reduction to 65% is instituted. Premiums paid on behalf of Water Utility employees was \$19,537 for each of the last three Fiscal Years. For Fiscal Year 2010-11, the amount paid for life insurance premiums for Water Utility employees is estimated to be the same.

Post Employment Health Care Benefits. In addition to providing pension benefits through PERS, the City provides certain health care benefits for retired employees under contractual obligations negotiated between the City and the various employee bargaining units.

The City’s Retiree Healthcare Plan (the “RHP”) is a single-employer defined benefit healthcare plan administered by Zenith Administrators of San Francisco, California. All City management and public safety employees who receive a PERS retirement allowance upon separation are eligible for coverage under the RHP at age 50. Other miscellaneous employees who receive PERS retirement allowance and have 15 or more years of service are eligible for coverage at age 50 or 55, depending on bargaining unit. Some employees, retired for disability, may qualify at a younger age. Full medical benefits are continued until age 65 or a maximum of 15 years whoever occurs first. Such coverage includes the retiree and one dependent. At age 65, eligible retirees are covered under a Medicare Supplemental Plan, which pays secondary to Medicare. This is a lifetime benefit provided to the retired employee and his or her eligible dependent. Currently, a total of 862 City retirees meet these eligibility requirements and participate in the RHP.

As of June 30, 2010, a total of 1,003 City retirees were participating in the RHP, of which 62 were former Stockton MUD employees. Separate information for Water Utility is not available.

Set forth below is information with respect to the RHP for the entire City. Separate reports for the Water Utility are not available.

Funding Policy. The contribution requirements are paid by City departments and are based on amounts established in the annual budgets of the City. For Fiscal Year 2008-09, the contributions made by the City were financed on a pay-as-you-go basis. During Fiscal Year 2008-09, expenditures of

approximately \$10,388,000 were recognized for payment of post employment health care benefits. Most retirees do not contribute to the RHP. Retirees who exhaust their City-paid benefit before reaching age 65 can purchase coverage until they reach age 65. Those that qualify for City paid benefits may purchase coverage for additional dependents not covered by the City’s contribution to the RHP. The City intends to develop a 12-year plan to phase in the funding of the Annual Requirement Contribution (the “ARC”).

Annual OPEB Cost and Net OPEB Obligations. The City’s annual other postemployment benefit (“OPEB”) cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost, percentage of annual OPEB cost contributed to the RHP and the net OPEB obligation for 2008 and 2009 are summarized in Table 12.

Table 12
City of Stockton
OPEB Three-Year Trend Information
(\$ in thousands)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of Annual OPEB Cost contributed</u>	<u>OPEB Obligation</u>
6/30/2009	\$34,585	30%	\$48,805
6/30/2008	33,801	27	24,608

Source: City of Stockton Audited Financial Statements for the Year Ended June 30, 2009.

As required by GASB Statement No. 45, the City will report three years of data in the above table, as the information becomes available in subsequent years.

Funded Status and Funding Progress. As of June 30, 2007, the most recent actuarial valuation date, the actuarial liability for benefits was \$388,303,000 and the actuarial value of plan assets was \$0, resulting in a UAAL of \$388,303,000. The covered payroll (annual payroll of active employees covered by the plan) was \$98,464,000 and the ratio of the UAAL to the covered payroll was 395%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples includes assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded stats of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions

used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return on the City's pooled investments and an initial annual healthcare cost trend rate of 11.7% for members who are also covered by Medicare and 11.3% for non-Medicare members. This was reduced by decrements to an ultimate rate of 4.5% after 10 years for both groups. Both rates included a 3.0% inflation assumption and payroll increases of 3.25%. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009 is 29 years.

WATER SYSTEM FINANCES

Rate Setting, Billing and Collection Procedures

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

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

The unified utility bill is due and payable on the date of billing and becomes delinquent 25 days thereafter. If such bills remain unpaid on the 26th day after billing; utility services may be terminated. If Water Service is terminated due to unpaid delinquent charges; Water service is not be restored until the full amount of all delinquent charges and associated service charges and fees, deposits and reconnection charges have been paid in full, or an amortization agreement has been authorized by the City or – authorized agent for billing and collection pursuant to Sections 779 or 10010 of the State Public Utilities Code or other applicable statute or regulation.

Water Rate and Financing Study. In connection with the development of the Water Project and increasing costs of water under long-term purchase contracts, the City contracted with HDR Engineering, Inc. to complete the Study. In accordance with the analyses and conclusions reached in the Study, the City adopted significant changes in the rates and charges for Water Services. The new rate structure maintains a single rate for all customers. However the single rate has been revised to move towards a conservation-based structure, and separate classes of service were developed to permit future rate level and structure adjustment by class of service. In addition the City adopted, in accordance with the Study, a four-year transition plan for the increased rate providing for larger adjustments in the initial years and somewhat lower adjustments in the latter years. See “–Rates, Fee and Charges.” A copy of the Study can be obtained by contacting the City Clerk, City of Stockton, 425 North El Dorado Street, Stockton, California 95202 or viewed online at www.stocktongov.com.

Rates, Fees and Charges

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

Monthly Water Service Charges. Customers of the Water Utility are billed monthly water service charges based on a fixed monthly service charge based on meter size and a consumption charge based on water usage. While classified by type of use, all customers are charged according to the same rate schedule.

Connection Fees. One-time charges (“Connection Fees”) levied by the City to recover costs incurred by the Water Utility for providing capacity in the Water Utility required by new users. The collection of such fees is therefore subject to the pace of development in the Service Area. Over the course of the past 15 years, development in the City has produced an adjusted average of approximately 1,700 new equivalent dwelling unit connections annually.

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

When combined with the City’s existing water system connection charge of \$1,954 the New Melones Surface Water Supply Fee collected on behalf of the Stockton East Water District of \$3,512 and the new Delta Water Supply Project Surface Water Supply Fee (the “Surface Water Supply Fee”) of \$4,442 (see “–Service Charges”), the cost of connecting a new single family residence for water service is \$9,908.

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

Table 13
City of Stockton
Water System
Historical and Projected Connection Fee Revenues
(Fiscal Year Ended June 30)
(\$ in thousands)

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10⁽¹⁾</u>	<u>2010-11⁽²⁾</u>
Revenues	\$1,721	\$1,387	\$398	\$352	\$505
Surface Water Supply Fee ⁽³⁾	N/A	N/A	N/A	485	1,143

(1) Preliminary.

(2) Estimated.

(3) The Surface Water Supply Fee took effect in September 2009.

Source: City of Stockton.

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

Service Charges. Each customer's service is metered. The Water System charges its customers initial connection charges, on-going service charges and quantity charges.

Each water customer is charged a fixed charge and a quantity charge. The table below sets forth water rates since July 1, 2007.

Table 14
City of Stockton
Water System
Service Charges
Service Charge per Meter per Month
(As of July 1)

<u>Meter Size</u>	<u>Rate</u>				
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
5/8 inch meter	\$13.50	\$13.70	\$14.25	\$15.00	\$16.00
3/4 inch meter	15.60	15.90	16.75	17.65	18.80
1 inch meter	20.70	21.10	22.00	23.15	24.70
1-1/2 inch meter	29.80	30.30	31.75	33.40	35.65
2 inch meter	38.40	39.10	41.00	43.15	46.05
3 inch meter	68.10	69.30	72.50	76.30	81.40
4 inch meter	97.90	99.70	104.25	109.75	117.05
6 inch meter	161.00	164.00	171.75	180.80	192.85
8 inch meter	234.00	238.00	249.00	262.10	279.60
10 inch meter	292.00	297.00	310.75	327.10	348.90
12 inch meter	411.00	418.00	437.50	460.55	491.25
Quantity Rates \$/ccf					
0 – 300 ccf	\$0.77	\$0.78	\$0.85	\$1.02	\$1.21
> 300 ccf	0.65	0.66	0.69	1.02	1.21

Source: City of Stockton.

On July 7, 2009 the City Council approved a four-year water rate increase plan and the imposition of a new Surface Water Supply Fee. The first year's rate increase took effect on August 6, 2009. Each subsequent annual increase will take effect July 1. The rate increases are summarized in the table on the following page.

Table 15
City of Stockton
Water System
Current and Adopted Rates

	<u>Fiscal Year</u> <u>2010-11⁽²⁾</u>	<u>Fiscal Year</u> <u>2011-12⁽²⁾</u>	<u>Fiscal Year</u> <u>2012-13⁽²⁾</u>
Current Average Monthly Residential Bill: \$34.50 ⁽¹⁾			
Projected Average Monthly Residential Bill	\$43.84	\$49.10	\$54.01
\$ Change per Month	5.72	5.26	4.91
Cumulative \$ Change per Month	9.34	14.60	19.51

(1) Average residential bill assumes a 3/4" meter and 20 CCF (14,960 gallons) of usage, based on existing rates effective July 1, 2009.

(2) Fiscal Year 2009-10 rates assume implementation in August 2009. Rates are for Fiscal Years 2010–11 through 2012-13; the Fiscal Year assumes implementation effective July 1st of each Fiscal Year.

Source: City of Stockton Delta Water Supply Project: Final Water Rate and Financing Study (HDR Engineering - June 2009).

The new Delta Water Supply Project Surface Water Supply Fee (the "Surface Water Supply Fee") took effect in September 2009. The actual fee amount will depend upon water meter size and time of connection to the Water System. The Surface Water Supply Fee amounts are summarized in the table below, the detailed calculations for which can be found in the City of Stockton DWSP Surface Water Supply Fee Report (HDR Engineering – June 2009):

Table 16
City of Stockton
Water System
DWSP Surface Water Supply Fee

<u>Meter Size</u>	<u>Supply Fee</u> <u>Weighting Factor⁽¹⁾</u>	<u>Calculated Fee</u>	
		<u>Fiscal Year</u> <u>2009-10</u>	<u>Fiscal Year</u> <u>2010-11</u>
3/4" Meter	1.00	\$4,410	\$4,442
1" Meter	1.67	7,365	7,418
1 1/2" Meter	4.00	17,640	17,768
2" Meter	5.33	23,505	23,676
3" Meter	10.67	47,055	47,396
4" Meter	16.67	73,515	74,048
6" Meter	33.33	146,985	148,052
8" Meter	53.33	235,185	236,892
10" Meter	–	(2)	(4)
12" Meter	–	(3)	(5)

(1) Based on City weighting factors associated with maximum continuous flow based on meter size; meters larger than 8" are formula based.

(2) For 10" meters, the fee is based on the following formula: (flow rate/30 gpm x \$4,410) plus \$61,907.

(3) For 12" meters, the fee is based on the following formula: (flow rate/30 gpm x \$4,410) plus \$86,048.

(4) For 10" meters, the fee is based on the following formula: (flow rate/30 gpm x \$4,442) plus \$61,907.

(5) For 12" meters the fee is based on the following formula: (flow rate /30 gpm x \$4,442) plus \$86,049.

Source: City of Stockton Delta Water Supply Project: Final Water Rate and Financing Study (HDR Engineering - June 2009).

Temporary Service. Charges for water furnished through a temporary service connection is set at double the established rates for similar permanent customers. For unmetered, temporary service of three days or less duration, a minimum rate of 16.50 per day applies.

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

**Table 17
City of Stockton
Water System
Backflow Device Testing Charges
(Fiscal Years)**

	Fiscal Year				
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Double check valves (both plus parts)	\$61.20	\$66.25	\$67.75	\$67.75	\$69.50
Double check valves 2" and larger and reduce pressure devices (RPD) (Plus Parts)	61.20	65.25	67.75	67.75	69.50

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

**Table 18
City of Stockton
Water System
Private Fire Hydrant and Protection Services
(Fiscal Years)**

	Charge				
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Rate per Hydrant/Month	\$5.00	\$5.10	\$5.25	\$5.50	\$5.75
<u>Hydrant Size</u>					
1-1/2 inch connection	\$7.00	\$7.10	\$7.50	\$7.75	\$8.00
2 inch connection	9.40	9.60	10.00	10.50	10.75
3 inch connection	14.10	14.40	15.00	15.50	16.00
4 inch connection	18.70	19.00	20.00	20.75	21.25
6 inch connection	28.20	28.70	30.00	31.25	32.00
8 inch connection	35.80	36.40	38.00	39.50	40.50
10 inch connection	46.80	47.60	49.75	51.75	53.00
12 inch connection	56.20	57.20	59.75	62.00	63.50

Source: City of Stockton Delta Water Supply Project: Final Water Rate and Financing Study (HDR Engineering - June 2009).

Delinquencies. Set forth in the table below is a summary of the amounts billed for charges for services and recognized as uncollectible for the last five Fiscal Years. Beginning in Fiscal Year 2007-08, the amount recognized as uncollectible exceeded 1% for the first time. This increase is related to increased foreclosure activity within the City due to adverse economic conditions. For a discussion of construction and foreclosure activity within the City, see APPENDIX A-“GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE CITY OF STOCKTON.”

Table 19
City of Stockton
Water System
Uncollectible Charges for Services
(Fiscal Years)
(\$ in 000s)

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10[†]</u>
Total Billed	\$20,267.0	\$23,092.0	\$22,882.0	\$24,248.0	\$25,770.0
Amount Uncollected	\$50.0	\$64.5	\$277.8	\$625.0	423.0
Uncollectible %	0.25%	0.28%	1.21%	2.58%	1.64%

[†] Preliminary.

Source: City of Stockton, Utility Billing.

Comparable Rates and Fees

Comparative Monthly Water Service Charges. The City’s standard residential charges as of July 1, 2010 are set forth in Table 20 below with a comparison to other comparable, neighboring cities.

Table 20
City of Stockton
Water System
Current Monthly User Fee Comparison
Residential Service
(As of July 1, 2010)

<u>City</u>	<u>Monthly User Fee</u>
Brentwood	\$59.12
Cal Water (Stockton)	44.86
Manteca	40.55
Lathrop	39.57
Modesto	39.31
Pleasanton	38.85
Stockton	33.15
Tracy	32.60

Source: City of Stockton Delta Water Supply Project: Final Water Rate and Financing Study (HDR Engineering - June 2009).

Comparative Connection Fees. The current Connection Fees and a comparison of the City’s Connection Fees to those of other Central Valley and Northern California cities are set forth in Table 21. City Connection Fees are included as part of the City’s Water System Net Revenues which are used, in part, to pay the Installment Payments on the Bonds.

Table 21
City of Stockton
Water System
Current Water Connection Fees Comparison
(As of July 1, 2010)

<u>City</u>	<u>Water Connection Fee(s)</u>
Pleasanton ⁽¹⁾	\$23,070/22,330
Stockton⁽²⁾	9,675
Brentwood	7,525
Lathrop (West)	5,215
Lathrop (East)	4,990
Manteca	3,563
Modesto	3,398
Tracy	2,584
Cal Water (Stockton)	0

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

(2) Includes water connection fee, New Melones Surface Water Supply fee and DWSP Surface Water Supply Fee. The water connection fee alone is \$1,906.

Source: City of Stockton, Municipal Utilities Department.

Investment of Water System Funds

The investment of funds of the City (except pension and retirement funds), including those held under the Indenture and in the Enterprise Funds (including those of the Water System), are made in accordance with the City’s Investment Policy, most recently amended on May 18, 2010 by Resolution No. 10-0134 for Fiscal year 2010-11(the “Investment Policy”) and Section 53600 *et seq.* of the California Government Code. The Investment Policy is subject to revision at any time and is reviewed at least annually to ensure compliance with the stated objectives of safety, liquidity, yield, and current laws and financial trends. All amounts held under the Indenture are invested at the direction of the City in Permitted Investments, as defined in the Indenture, and are subject to certain limitations contained therein.

The objective of the Investment Policy is to assist the City in accurately monitoring and forecasting expenditures and revenues to enable the City to invest funds to the fullest extent possible while obtaining the highest yield, provided such investments satisfy the criteria established for safety and liquidity.

All funds of the City (except retirement funds) and investment activities are governed by the Investment Policy, which sets forth the following primary objectives, in order of priority:

Safety. The safety of principal is the foremost objective of the investment program. The investments of the City are to be undertaken in a manner which seeks to ensure preservation of the capital in the overall of the portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity. Requires that the investment portfolio of the City remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.

Yield. Requires that the investment portfolio be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of the City and the cash flow characteristics of the portfolio.

The City strives to maintain the level of investment of all funds as near 100% as possible, through daily and projected cash flow determinations. The basic premise underlying the City's investment philosophy is, and continues to be, to insure that funds remain safe and available as needed.

Copies of the Investment Policy may be obtained by contacting the Interim Chief Financial Officer, City Hall, 425 North El Dorado Street, Stockton, California 95202.

Pro Forma Debt Service Coverage

The Table 22 sets forth revenues, expenses and debt service coverage based on the City's audited financial statements for Fiscal Year 2004-05 through Fiscal Year 2008-09.

Table 22
City of Stockton
Water System
Historical Pro Forma Revenues, Expenses and Coverage
(\$ in thousands)

	(Audited) <u>2004-05</u>	(Audited) <u>2005-06</u>	(Audited) <u>2006-07</u>	(Audited) <u>2007-08</u>	(Audited) <u>2008-09</u>
Charges for Services	\$19,553	\$19,785	\$22,631	\$22,234	\$23,721
Connection Fees	1,291	1,892	1,721	1,387	399
Miscellaneous	571	482	461	641	532
Interest Income	527	827	1,974	2,090	1,428
Rate Stabilization Fund	—	—	—	—	—
Total Revenue	21,942	22,986	26,787	26,352	26,080
Operations and Maintenance Costs					
General Operations	5,481	8,515	8,605	6,861	9,303
General and Administrative	3,481	2,665	3,807	4,784	4,632
Purchased Water	<u>3,196</u>	<u>4,451</u>	<u>5,275</u>	<u>6,365</u>	<u>6,188</u>
Total Operation and Maintenance Costs⁽¹⁾	12,158	15,631	17,687	18,010	20,123
Net System Revenue	\$9,784	\$7,355	\$9,100	\$8,342	\$5,957
Existing Parity Obligations Debt Service⁽²⁾	\$1,203	\$1,631	\$2,354	\$2,357	2,555
Existing Parity Obligations Debt Service Coverage⁽³⁾	8.13x	4.51x	3.87x	3.54x	2.53x
Net Revenue After Debt Service	\$8,581	\$5,724	\$6,746	\$5,985	\$3,602

⁽¹⁾ Excludes depreciation and amortization.

⁽²⁾ Represents debt service on the Existing Parity Obligations

⁽³⁾ Includes All Revenues of the Water Enterprise System.

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

For the statement of net assets and the statement of revenues, expenditures and changes in fund assets of the Water System for Fiscal Years 2003-04 through Fiscal Year 2008-09, see APPENDIX B–“CITY OF STOCKTON WATER UTILITY ENTERPRISE FUND FINANCIAL STATEMENTS.”

Revenues, expenses and debt service coverage (projected) for Fiscal Years 2009-10 through 2013-14 are set forth in Table 23 on the following page based on certain assumptions as described in the footnotes.

(Remainder of this Page Intentionally Left Blank)

Table 23
City of Stockton
Water Utility Fund
Projected Pro Forma and Debt Service Coverage Calculation
(\$ in thousands)

	Estimated <u>2009-10</u>	Projected <u>2010-11</u>	Projected <u>2011-12</u>	Projected <u>2012-13</u>	Projected <u>2013-14</u>	Projected <u>2014-15</u>
System Revenues						
Charges for Services ⁽¹⁾⁽²⁾	\$25,240,592	\$28,988,390	\$32,247,697	\$35,377,295	\$36,616,669	\$37,722,909
DWSP Charges for Services ⁽³⁾⁽⁴⁾	351,540	505,223	1,146,657	1,244,562	1,536,763	2,001,399
Connection Charges ⁽³⁾⁽⁴⁾	485,100	1,142,580	2,601,849	2,651,457	3,181,749	4,030,215
DWSP Connection Charges ⁽⁴⁾⁽⁵⁾	1,085,019	1,247,393	1,184,456	1,074,122	1,066,538	1,103,766
Interest Income ⁽⁷⁾	531,356	541,983	552,823	563,879	575,157	586,660
Rate Stabilization Deposit ⁽⁶⁾	—	—	—	<u>1,520,000</u>	<u>1,220,000</u>	<u>800,000</u>
Total System Revenues	<u>\$27,693,607</u>	<u>\$32,425,568</u>	<u>\$37,733,481</u>	<u>\$42,431,315</u>	<u>\$44,196,875</u>	<u>\$46,244,949</u>
Operation and Maintenance Costs						
General Operations ⁽⁸⁾	\$6,818,171	\$6,495,221	\$6,641,587	\$6,493,139	\$6,561,286	\$6,815,593
General and Administrative ⁽⁸⁾	2,429,875	4,320,373	4,466,406	4,589,694	4,716,783	4,847,313
Purchased Water ⁽⁹⁾	9,162,907	10,621,914	10,940,571	8,399,858	8,637,853	8,882,597
O&M DWSP ⁽¹⁰⁾	—	—	<u>2,652,965</u>	<u>3,932,913</u>	<u>4,355,535</u>	<u>4,477,490</u>
Total Operating Expenses	<u>\$18,410,953</u>	<u>\$21,437,508</u>	<u>\$24,701,529</u>	<u>\$23,415,604</u>	<u>\$24,271,456</u>	<u>\$25,022,992</u>
Net System Revenues⁽¹¹⁾	<u>\$9,282,653</u>	<u>\$10,988,060</u>	<u>\$13,031,952</u>	<u>\$19,015,712</u>	<u>\$19,925,419</u>	<u>\$21,221,958</u>
Parity Obligations Debt Service⁽¹²⁾						
Drought Loan	\$95,342	\$95,342	\$95,342	\$95,342	\$95,342	\$95,342
Series 2002A	1,108,370	1,114,465	1,108,945	1,111,588	1,112,038	1,115,188
Series 2005	1,150,313	1,150,313	1,150,313	1,150,313	1,150,313	1,150,313
Series 2010 (Variable) ⁽¹³⁾	—	—	—	<u>1,560,920</u>	<u>1,635,366</u>	<u>1,635,366</u>
Parity Obligations Debt Service	<u>\$2,354,024</u>	<u>\$2,360,119</u>	<u>\$2,354,599</u>	<u>\$3,918,162</u>	<u>\$3,993,057</u>	<u>\$3,996,207</u>
Parity Obligations Debt Service Coverage ⁽¹²⁾	3.94x	4.66x	5.53x	4.85x	4.99x	5.31x
Available Revenues⁽¹⁴⁾	<u>\$6,928,629</u>	<u>\$8,627,941</u>	<u>\$10,677,353</u>	<u>\$15,097,550</u>	<u>\$15,932,362</u>	<u>\$17,225,750</u>
Subordinate Obligations Debt Service⁽¹²⁾						
Series 2009A (Fixed) ⁽¹⁵⁾	79,621	632,134	614,252	3,758,882	3,759,982	3,756,082
Taxable Series 2009B (Fixed) ⁽¹⁵⁾⁽¹⁶⁾	<u>1,187,127</u>	<u>6,142,147</u>	<u>5,993,363</u>	<u>7,410,565</u>	<u>7,410,565</u>	<u>7,410,565</u>
Subordinate Obligations Debt Service	<u>1,266,749</u>	<u>6,774,281</u>	<u>6,607,615</u>	<u>11,169,447</u>	<u>11,170,547</u>	<u>11,166,647</u>
Subordinate Obligations Debt Service Coverage	5.47x	1.27x	1.62x	1.35x	1.43x	1.54x
Net System Revenues Available for Capital and Other	<u>\$5,661,881</u>	<u>\$1,853,660</u>	<u>\$4,069,738</u>	<u>\$3,928,103</u>	<u>\$4,761,815</u>	<u>\$6,059,103</u>

- (1) Escalated at customer growth of 0.55% for Fiscal Year 2010-11; 0.85% for Fiscal Year 2011-12; 1.25% for Fiscal Year 2012-13; 1.5% for Fiscal Year 2013-14 and 1.9% thereafter.
- (2) Assumes adopted rate increases of 15.0% in Fiscal Year 2009-10, 15.0% in Fiscal Year 2010-11, 12.0% in Fiscal Year 2011-12, 10.0% in Fiscal Year 2012-13, and CPI thereafter.
- (3) Based on the current Fiscal Year 2009-10 connection fee of \$1,890.00 per dwelling unit equivalent (a "DUE") escalated at 3% annually.
- (4) Growth estimates based on 259 DUEs in Fiscal Year 2010-11, 570 DUEs including 166 from a major institutional connection in Fiscal Year 2011-12, 601 DUEs in Fiscal Year 2012-13, 721 DUEs in 2013-14, and 914 DUEs thereafter.
- (5) Based on a Surface Water Supply Fee of \$4,410.00 per DUE.
- (6) Based on an established Rate Stabilization Fund of \$7.5 million to provide additional debt service coverage.
- (7) Based on an initial fund balance of approximately \$18 million annually earning 3.0% interest. Also includes interest earned on Debt Service reserve funds for the 2005 Series A and Series 2010A Bonds.
- (8) Adjusted Fiscal Year 2009-10 budget escalated at 2.8% per year. Also includes remarketing fees assumed on the Series 2010A Bonds.
- (9) Based on current contract costs and future projected purchases provided by the City. See "THE WATER PROJECT—Description."
- (10) Based on engineering estimates of operating costs.
- (11) Represents total System Revenues less Total Operating Expenses.
- (12) Debt service and coverage calculations provided by Citigroup Global Markets Inc.
- (13) Represents debt service on the Series 2010A Bonds at an assumed interest rate of 2.03% as well as the Bank letter of credit fee of 0.92% paid annually, net of capitalized interest.
- (14) Amounts available to pay Subordinate Obligations debt service after the payment of Parity Obligations debt service.
- (15) Represents debt service on the Series 2009A Bonds net of partial capitalized interest through and until October 1, 2011.
- (16) Represents debt service on the Taxable Series 2009B Bonds, net of the 35% Build America Bond credit as well as debt service reserve fund interest.

Sources: City of Stockton, Municipal Utilities Department and City of Stockton Delta Water Supply Project: Final Water Rate and Financing Study (HDR Engineering – June 2009) for revenues and expenses and Citigroup Global Markets Inc. for debt service coverage information.

DEBT SERVICE SCHEDULE

The Fiscal Year debt service requirements for the Existing Parity Obligations and the Series 2010A Bonds are set forth on the following page.

(Remainder of this Page Intentionally Left Blank)

Table 24
Debt Service Schedule

Fiscal Year (June 30)	Senior Lien Obligations			Total	Senior Lien Debt Service	Subordinate Lien Obligations ⁽³⁾	Total Obligations
	Existing Parity Obligations Debt Service ⁽¹⁾	Principal	Interest ⁽²⁾				
2010	\$2,354,024	—	—	—	\$2,354,024	\$5,104,811	\$7,458,835
2011	2,360,119	—	\$1,104,490	\$1,104,490	3,464,610	8,587,533	12,052,142
2012	2,354,599	—	1,710,506	1,710,506	4,065,105	8,587,533	12,652,637
2013	2,357,242	—	1,690,240	1,690,240	4,047,482	11,561,833	15,609,314
2014	2,357,692	—	1,690,366	1,690,366	4,048,057	11,562,933	15,610,990
2015	2,360,842	—	1,690,366	1,690,366	4,051,207	11,559,033	15,610,240
2016	2,356,709	—	1,688,796	1,688,796	4,045,505	11,562,333	15,607,838
2017	2,359,995	—	1,711,950	1,711,950	4,071,945	13,549,958 ⁽⁶⁾	17,621,903
2018	2,498,530	\$180,000	1,686,344	1,866,344	4,364,875	11,512,678	15,877,553
2019	2,409,433	285,000	1,678,482	1,963,482	4,372,915	11,508,912	15,881,826
2020	2,407,419	295,000	1,667,969	1,962,969	4,370,387	11,511,846	15,882,233
2021	2,406,466	305,000	1,660,138	1,965,138	4,371,604	11,509,461	15,881,065
2022	2,407,522	310,000	1,650,795	1,960,795	4,368,317	11,513,005	15,881,323
2023	2,405,541	300,000	1,662,554	1,962,554	4,368,095	11,511,243	15,879,338
2024	2,409,688	330,000	1,630,001	1,960,001	4,369,688	11,508,820	15,878,508
2025	2,405,297	340,000	1,621,065	1,961,065	4,366,362	11,515,024	15,881,386
2026	2,407,375	350,000	1,610,534	1,960,534	4,367,909	11,512,298	15,880,207
2027	2,405,663	360,000	1,599,576	1,959,576	4,365,238	11,513,950	15,879,189
2028	2,406,825	355,000	1,607,533	1,962,533	4,369,358	11,510,116	15,879,474
2029	2,405,325	385,000	1,576,844	1,961,844	4,367,169	11,514,891	15,882,059
2030	2,404,700	400,000	1,564,816	1,964,816	4,369,516	11,512,372	15,881,888
2031	2,404,700	410,000	1,552,323	1,962,323	4,367,023	11,511,786	15,878,808
2032	2,405,075	425,000	1,537,986	1,962,986	4,368,061	11,512,098	15,880,160
2033	2,408,125	440,000	1,525,954	1,965,954	4,374,079	11,507,407	15,881,486
2034	2,408,850	430,000	1,532,170	1,962,170	4,371,020	11,506,680	15,877,700
2035	2,404,825	465,000	1,498,646	1,963,646	4,368,471	11,513,497	15,881,968
2036	2,405,813 ⁽⁴⁾	2,710,000	1,433,038	4,143,038	6,548,851	11,511,696	18,060,546
2037	—	565,000	1,398,823	1,963,823	1,963,823	13,916,490	15,880,313
2038	—	580,000	1,381,263	1,961,263	1,961,263	13,918,105	15,879,368
2039	—	14,450,000	1,057,492	15,507,492	15,507,492	13,920,262 ⁽⁷⁾	29,427,754
2040	—	14,925,000	609,391	15,534,391	15,534,391	—	15,534,391
2041	—	15,405,000	130,122	15,535,122 ⁽⁵⁾	15,535,122	—	15,535,122
TOTAL	\$64,678,392	\$55,000,000	\$46,160,572	\$101,160,572	\$165,838,963	\$342,548,602	\$508,387,566

(1) For a description of the Existing Parity Obligations, see "SECURITY AND SOURCES PAYMENT FOR THE SERIES 2010A BONDS—Parity Obligations—Existing Parity Obligations."

(2) Debt service on the Series 2010A Bonds is calculated at assumed interest rate equal to the Securities Industry and Financial Markets Association 10-year average equal to 2.03% plus Letter of Credit fees equal to 0.92% and remarketing fees equal to 0.10%.

(3) Represents debt service on the 2009 Bonds net of the BABs Subsidy with respect to the Taxable Series 2009B Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS—Subordinate Obligations."

(4) The balance of the 2005 Series A Bonds debt service reserve fund will be applied to towards the final principal and interest payment.

(5) The balance of the Series 2010A Reserve Fund will be applied to towards the final principal and interest payment.

(6) The balance of the Series 2009A debt service reserve fund will be applied to towards the final principal and interest payment.

(7) The balance of the Taxable Series 2009B debt service reserve fund will be applied to towards the final principal and interest payment.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

Series 2010A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2010A Bonds. The Authority and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2010A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2010A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2010A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2010A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2010A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds may otherwise affect a beneficial owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2010A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from State income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2010A Bonds. Prospective purchasers of the Series 2010A Bonds should consult

their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2010A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the City have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2010A Bonds ends with the issuance of the Series 2010A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the City or the beneficial owners regarding the tax-exempt status of the Series 2010A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the City and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2010A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2010A Bonds, and may cause the Authority, the City or the beneficial owners to incur significant expense.

LEGAL MATTERS

The validity of the Series 2010A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX F to this Official Statement. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the Authority and the City by the City Attorney. Certain other legal matters will be passed on for the Authority and the City by Lofton & Jennings, San Francisco, California, Disclosure Counsel, for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, A Professional Corporation, San Francisco, California and for the Bank by Chapman and Cutler LLP, Chicago, Illinois.

The fees of Bond Counsel, Disclosure Counsel and Underwriter's Counsel are contingent upon the issuance of the Series 2010A Bonds.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of the Series 2010A Bonds, Counsel to the Authority and the City Attorney will deliver opinions to the initial Underwriter that there is no controversy or litigation now pending against the Authority or the City or, to the knowledge of their offices, threatened, restraining or enjoining the sale, execution or delivery of the Series 2010A Bonds or the Installment Purchase Contract, or in any way contesting or affecting the validity of the Series 2010A Bonds or the Installment Purchase Contract.

The Authority

No litigation is pending with service of process having been accomplished or, to the knowledge of the Counsel to the Authority, threatened, concerning the validity of Indenture or Installment Purchase Contract, and the Counsel to the Authority will issue an opinion to that effect.

The City

There is no litigation pending with service of process having been accomplished or, to the knowledge of the City, threatened, questioning the existence of the City, or the title of the offices of the City to their respective offices. There is no litigation pending or, to the knowledge of the City, threatened, questioning or affecting in any material respect the financial condition of the City's Water System or the validity of the Series 2010A Bonds, the Installment Purchase Contract, or the Indenture.

The City is involved in ongoing contract negotiations with employee bargaining units and also has various legal actions are pending against the City. Neither the resolution of the contract negotiations nor the aggregate amount of the uninsured liabilities of the City which may result from all legal claims currently pending against it will, in the opinion of the City, materially affect the City's finances or impair its ability to make the 2010 Installment Payments under the Installment Purchase Contract.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group, a Division of McGraw-Hill Companies ("S&P") and Fitch, Inc., doing business as Fitch Ratings ("Fitch") have issued ratings on the Series 2010A Bonds of "Aa1/VMIG1," "AAA/A-1" and "AA+/F1," respectively based on the understanding that the Letter of Credit will be issued by the Bank simultaneously with the delivery of the Series 2010A Bonds.

The rating agencies have based their long-term ratings on the Series 2010A Bonds on their analysis of the credit strength of the Enterprise and the Bank using a "two-party-pay" rating approach. The short-term ratings on the Series 2010A Bonds are based solely on the credit strength of the Letter of Credit.

Moody's, S&P and Fitch have assigned underlying ratings of "Aa3," "A+" and "AA-," respectively, to the Series 2010A Bonds.

A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Series 2010A Bonds. An explanation of the significance of each rating may be obtained from the rating agencies at the following addresses: Moody's Investors Service, Inc., 7 World

Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor's Ratings Group, a Division of McGraw-Hill Companies, 55 Water Street, New York, New York 10041 and Fitch Inc., One State Street Plaza, New York, New York 10004. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by either rating agency if, in its judgment, circumstances so warrant. The Authority undertakes no responsibility to oppose any such revision or withdrawal but the Authority will comply with notification requirements. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Series 2010A Bonds.

FINANCIAL ADVISOR

The Authority has retained Del Rio Advisors, LLC of Modesto, California, as financial advisor (the "Financial Advisor") in connection with the preparation of this Official Statement and with respect to the issuance of the Series 2010A Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

Part of the compensation of the Financial Advisor is contingent upon the issuance of the Series 2010A Bonds.

UNDERWRITING

The Series 2010A Bonds were purchased through negotiation by Citigroup Global Markets Inc. (the "Underwriter"). The purchase contract pursuant to which the Underwriter is purchasing the Series 2010A Bonds provides that the Underwriter will purchase all of the Series 2010A Bonds if any are purchased. Under the terms of the purchase contract, the obligation of the Underwriter to make the purchase is subject to certain terms and conditions set forth in the purchase contract.

The Underwriter purchased the Series 2010A Bonds at a price of \$54,794,345 (which represents the principal amount of the Series 2010A Bonds less an underwriter's discount in the amount of \$205,655). The Underwriter may change the initial public offering prices set forth on the cover page. The Underwriter may offer and sell the Series 2010A Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Series 2010A Bonds or to any decision to purchase, hold or sell the Series 2010A Bonds and the Authority will not provide any such information. The City has undertaken all responsibilities of the Authority for any continuing disclosure to Holders of the Series 2010A Bonds as described below, and the Authority shall have no liability to the Holders of the Series 2010A Bonds or any other person with respect to S.E.C. Rule 15c2-12. The City has covenanted for the benefit of the Owners to provide certain financial information and operating data relating to the Series 2010A Bonds by not later than 270 days following the end of the City's Fiscal Year (which currently would be June 30) commencing with the report for the 2008-09 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by means of the Electronic Municipal Market Access (EMMA) site maintained by the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of material events is contained within APPENDIX D—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

The City has timely filed all of its prior annual reports and material event notices, if any. However, in several cases, certain items of information required to be contained in such reports were unintentionally omitted. As of the date hereof, the City has filed all required missing informational items for such reports. As a result of the implementation of certain administrative changes, the City believes it will be in full compliance with its continuing disclosure obligations in the future.

(Remainder of this Page Intentionally Left Blank)

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Authority, the City and the Underwriter of the Series 2010A Bonds. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

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

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

STOCKTON PUBLIC FINANCING AUTHORITY

By: /s/ William Thomas
Treasurer

CITY OF STOCKTON

By: /s/ William Thomas
Interim Chief Financial Officer

(This Page Intentionally Left Blank)

APPENDIX A

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

The following information concerning the City and surrounding areas is included only for the purpose of supplying general information regarding the community. The Series 2010A Bonds are not a debt of the City, the State or any of its political subdivisions and neither the City, the State, nor any of its political subdivisions is liable therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS."

Overview

The City is a charter city incorporated in 1850. The City is the county seat of San Joaquin County and is located in California's San Joaquin Valley, 78 miles east of the San Francisco Bay Area, 345 miles north of Los Angeles and 45 miles south of Sacramento. The County of San Joaquin covers approximately 1,400 square miles. The County is bounded by Sacramento County on the north and by Stanislaus County on the south. The City is a municipal corporation and a chartered city, duly organized and existing under the constitution and laws of the State.

Governing Body

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

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

(Remainder of this Page Intentionally Left Blank)

The Mayor, current members of the City Council, members of the City Council elected at the June 8, 2010 Direct Primary, and key administrative personnel of the City are listed in Table A-1A, Table A-1B and Table A-2, respectively.

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

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>	<u>Occupation</u>
Ann Johnston	Mayor	12/31/12	Business Owner
Katherine M. Miller	Vice Mayor, <i>District 2</i>	12/31/12	Attorney
Elbert H. Holman, Jr.	Councilmember, <i>District 1</i>	12/31/10	Businessman
Leslie Baranco Martin	Councilmember, <i>District 3</i>	12/31/10	Businesswoman
Diana Lowery	Councilmember, <i>District 4</i>	12/31/12	Educator
Susan Talamantes Eggman	Councilmember, <i>District 5</i>	12/31/10	Associate Professor
Dale Fritchen	Councilmember, <i>District 6</i>	12/31/12	Businessman

**TABLE A-2
CITY OF STOCKTON
Key Administrative Personnel**

<u>Name</u>	<u>Position</u>
Bob Deis	City Manager
John Luebberke	City Attorney
William Thomas	Interim Chief Financial Officer
F. Michael Taylor	City Auditor
Katherine Gong Meissner	City Clerk

The City provides a full range of municipal services. As provided in the City Charter, these services include public safety (police, fire, paramedics, water rescue and building inspection), sanitation (solid waste disposal, wastewater and stormwater utilities), water utility, community development, library, parks and recreation and general administrative services. Budgeted City full-time employees number 1,584 for Fiscal Year 2009-10, all of which are full-time permanent employees. Of the full-time employees, 558 are assigned to the Police Department and 296 to the Fire Department. Fire protection service is provided by the City, which has 13 stations and one fire training facility within its borders.

Population

Population information is set forth in Table A-3.

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

<u>Year</u>	<u>City of Stockton</u>	<u>County of San Joaquin</u>	<u>State of California</u>
2000 ⁽¹⁾	243,771	563,598	33,838,086
2006	284,509	664,889	37,086,191
2007	287,189	674,331	37,472,074
2008	288,499	682,316	37,883,992
2009	289,717	687,854	38,255,508
2010 ⁽²⁾	292,133	694,293	38,648,090

(1) Decennial Census.

(2) Preliminary.

Source: U.S. Census Bureau for the decennial census. California State Department of Finance, E-4: Population Estimates for Cities, Counties and State, 2001-2010 with 2000 Benchmark.

(Remainder of this Page Intentionally Left Blank)

Labor Force and Employment

Table A-4 table represents the labor patterns in the City, the County, the State, and the United States from 2005 through 2009.

**Table A-4
CITY OF STOCKTON, SAN JOAQUIN COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
Civilian Labor Force, Employment, and Unemployment
2005 through 2009**

<u>Year and Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2009				
City	126,400	102,900	23,500	18.6%
County	299,500	253,300	46,200	15.4
State	18,250,200	16,163,900	2,086,200	11.4
United States	154,142,000	139,877,000	14,265,000	9.3
2008				
City	123,900	108,200	15,800	12.7
County	297,200	266,100	31,000	10.4
State	18,391,800	17,059,600	1,332,300	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
2007				
City	120,900	109,000	12,000	9.9
County	291,700	268,100	23,600	8.1
State	18,078,000	17,108,700	969,300	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
2006				
City	118,600	107,800	10,800	9.1
County	286,500	265,200	21,300	7.4
State	17,821,100	16,948,400	872,700	4.9
United States	151,428,000	144,427,000	7,001,000	4.6
2005				
City	118,200	106,700	11,500	9.7
County	285,200	262,600	22,600	7.9
State	17,629,200	16,671,900	957,200	5.4
United States	149,321,000	141,730,000	7,591,000	5.1

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

Employment and Industry

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

The largest employers in the City as of Fiscal Year 2010-11 are set forth in Table A-5.

Table A-5
CITY OF STOCKTON
Largest Employers Fiscal Year 2010-11
(As of August 2010)

<u>Company</u>	<u>Product/Service</u>	<u>Employees</u>
San Joaquin County [†]	County Government	5,700
Stockton Unified School District	Public Education	4,100
St. Joseph's Regional Health System	Health Care	2,800
OG Packing Company	Warehouse - Cold Storage	2,001
City of Stockton	City Government	1,584
Dameron Hospital	Health Care	1,200
University of the Pacific	Private College	960
Morada Produce	Fruit/Vegetable Processing	900
Foster Care Services	Social Services	800
Walmart	Department Store	730
Kaiser Permanente	Health Care	500
Teletech Communications	Communications Consultants	500
Vida en el Valle	Newspaper Publisher	500

[†] Includes employees of the San Joaquin General Hospital.

Source: City of Stockton Economic Development Department and Human Resources Department.

(Remainder of this Page Intentionally Left Blank)

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

Table A-6
STOCKTON MSA
Industry Employment⁽¹⁾ and Labor Force
By Annual Average
March 2008 Benchmark

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009⁽²⁾</u>
Total All Industries	221,000	223,400	225,900	220,600	209,100
Agriculture	15,200	14,300	14,500	14,900	15,500
Nonagriculture	205,800	209,100	211,500	205,700	193,600
Goods Producing	37,800	37,700	35,900	32,800	27,400
Manufacturing	20,900	21,700	21,900	21,200	18,900
Wholesale Trade	9,100	9,800	10,500	10,400	9,900
Retails Trade	26,900	27,200	26,900	25,600	23,600
Transportation, Warehousing, Utilities	13,000	13,500	13,900	14,100	13,800
Information	2,600	2,500	2,500	2,400	2,200
Financial Activities	9,800	9,900	9,900	9,400	9,100
Professional and Business Services	18,100	18,500	18,300	17,600	15,900
Education and Health Services	25,600	26,100	27,700	28,400	28,100
Leisure and Hospitality	17,100	17,300	17,800	17,500	16,500
Other Services	6,400	6,800	7,700	7,400	7,000
Government	39,600	39,600	40,300	40,400	40,200

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, and household domestic workers on strike.

(2) Preliminary.

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

Personal Income

Total personal income is defined by the Bureau of Economic Analysis, an agency of the U.S. Department of Commerce, as income received from all sources, including income received from participation in production as well as from government and business transfer payments. It represents the sum of compensation received by employees, supplements to wages and salaries, proprietors' income with inventory valuation adjustment and capital consumption adjustment (the "CCAdj"), rental income of persons with the CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. Per capita income is calculated as the personal income divided by the resident population based upon the Census Bureau's annual midyear population estimates.

Table A-7 summarizes the total personal income and per capita income for the Stockton Metropolitan Statistical Area (an “MSA”), the State and the United States for the calendar years 2005 through 2009. The principal city for the Stockton MSA is the City.

Table A-7
STOCKTON METROPOLITAN AREA,
STATE OF CALIFORNIA AND UNITED STATES
Personal Income

<u>Year and Area</u>	<u>Personal Income</u> <u>(millions of dollars)</u>	<u>Per Capita</u> <u>Personal Income</u> <u>(dollars)</u>
2009[†]		
Stockton MSA	\$21,032	\$31,166
State	1,564,389	42,325
United States	10,488,977	40,757
2008		
Stockton MSA	\$21,079	\$31,547
State	1,604,113	43,852
United States	12,225,589	40,166
2007		
Stockton MSA	\$20,635	\$31,018
State	1,572,271	43,402
United States	11,879,836	39,392
2006		
Stockton MSA	\$19,476	\$29,513
State	1,495,560	41,567
United States	11,256,516	37,698
2005		
Stockton MSA	\$18,300	\$27,963
State	1,387,682	38,767
United States	10,476,669	35,424

[†] Preliminary.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

(Remainder of this Page Intentionally Left Blank)

Construction Activity

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

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

<u>Permit Valuation</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
New Single Family	\$532,975.4	\$233,156.2	\$151,268.0	\$43,049.2	\$42,530.6
New Multiple Family	6,857.5	9,925.8	10,887.0	708.0	0.0
Residential Alterations/Additions	<u>20,192.0</u>	<u>18,172.9</u>	<u>15,224.9</u>	<u>13,773.0</u>	<u>10,270.0</u>
TOTAL RESIDENTIAL	\$560,024.9	\$261,254.9	\$177,379.9	\$57,530.1	\$52,800.6
New Commercial	\$100,896.4	\$94,168.5	\$151,461.9	\$153,853.4	\$1,850.0
New Industrial	7,124.3	27,647.5	73,777.8	37,145.9	0.0
New Other	28,396.9	27,823.7	73,051.9	13,264.9	17,059.8
Commercial Alterations/Additions	<u>40,874.2</u>	<u>49,685.5</u>	<u>58,239.2</u>	<u>62,446.4</u>	<u>35,548.2</u>
TOTAL NONRESIDENTIAL	\$177,291.9	\$199,325.1	\$356,530.8	\$266,710.6	\$54,458.0
<u>New Dwelling Units</u>					
Single Family	2,312	929	617	164	187
Multiple Family	<u>83</u>	<u>91</u>	<u>89</u>	<u>8</u>	<u>0</u>
TOTAL	2,395	1,020	706	172	187

[†] Certain columns may not total due to rounding.

Foreclosure Activity

Based on information provided by an independent data collection service, for calendar year 2009, mortgage holders had sent 7,262 notices of default with respect to properties located within the City compared to 8,763 during calendar year 2008, and 4,232 trustee deeds had been recorded (indicating that the property has been lost to foreclosure) during calendar year 2009 compared to 6,455 during calendar year 2008. During the first half (January through June) of calendar year 2010, mortgage holders sent 2,348 notices of default and recorded 1,792 trustee deeds compared to 4,280 notices of default sent and 2,045 trustee deeds recorded during the first half calendar year 2009. These events are related to the collapse of the subprime sector of the mortgage market that is impacting certain homeowners nationwide. In California, the greatest impacts to date are in regions of the Central Valley (such as San Joaquin County) and the Inland Empire in Southern California, where the largest number of new mortgages were originated as growth occurred within the County.

A summary of the notices of default sent and trustee deeds recorded for the City and the County for calendar years 2007 through 2009 and for the first half (January through June) of calendar year 2009 and 2010 is set forth in Table A-9.

Table A-9
CITY OF STOCKTON AND SAN JOAQUIN COUNTY
Summary of Foreclosure Activity
Calendar Years 2007 through 2009 and First Half of Calendar Years 2009 and 2010

	Notices of Default						Trustee Deeds (Foreclosures)					
	Calendar Year			First Half (January –July)			Calendar Year			First Half (January –July)		
	2007	2008	2009	2009	2010	% Change	2007	2008	2009	2009	2010	% Change
City	6,009	8,763	7,262	4,280	2,348	(45.1%)	2,310	6,455	4,232	2,045	1,792	(12.4%)
County	11,051	16,410	13,660	7,896	4,451	(43.6)	3,971	11,625	7,594	3,613	3,239	(10.4)

Source: MDA DataQuick Information.

The level of default and foreclosure activity is related to the collapse of the subprime sector of the mortgage market that is impacting certain homeowners nationwide and has resulted in downward pressure on home prices in the affected areas. Within the State, the greatest impacts to date are in regions of the Central Valley, including the City, the Inland Empire, and other areas in the State where the large numbers of new mortgages were originated in more affordable areas.

The increased level of default and foreclosure activity has resulted in downward pressure on home prices in the affected areas. In response, the City has continued to implement its aggressive collection activities that include mailing timely demand letters to delinquent property owners with follow up by a foreclosure attorney, if required.

Transportation

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

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

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

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

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

Education and Recreation

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

The majority of students living within City limits attend schools operated by one of four unified school districts providing kindergarten through grade 12 education: the Stockton Unified School District, the Lodi Unified School District, the Lincoln Unified School District and the Manteca Unified School District. In Fiscal Year 2008-09, the most recent data available, according to State Department of Education data, 37,831 students attended classes in the Stockton Unified School District. There are three magnet high schools, one public high school, three alternative and continuation high schools, one charter high school, four middle schools, 43 elementary schools (kindergarten through grade 6), one kindergarten through grade 12 school, one alternative school, two community day schools, two special education schools, one continuation school and three charter schools in the Stockton Unified School District. Preschool and adult education classes are also offered by the Stockton Unified School District.

In Fiscal Year 2008-09, 19,918 students attended classes in the Lodi Unified School District located within the City (four high schools, one continuation school, five middle and/or junior high schools, one kindergarten through grade 3 school, 12 elementary (kindergarten through grade 6) schools, one grade 4 through grade 8 school, one alternative school) and three charter schools; 8,572 attended schools in the Lincoln Unified School District located within the City (two high schools, one continuation high school, one middle school, six kindergarten through grade 8 schools, two kindergarten through grade 6 schools and one preschool); and 5,126 students attended schools in Manteca Unified School District located within the City (two high schools and three kindergarten through grade eight schools).

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

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

There is also one central, three branch City libraries and two mobile library units holding more than one million books in the collection. There are also seven County library branches located within the City.

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

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

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

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

The 220,000 square foot, 10,000 seat Stockton Arena is the home of the California Cougars Major Indoor League Soccer Team, the Stockton Thunder Minor League Hockey Team and the Stockton Lightning Arena Football Team. A seven-level, 236,100 square foot, 592-space Event Center parking structure, located adjacent to the Stockton Arena includes 16,997 square feet of office/retail space.

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

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

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

(This Page Intentionally Left Blank)

APPENDIX B

**CITY OF STOCKTON
WATER UTILITY ENTERPRISE FUND
FINANCIAL STATEMENTS**

Set forth in the following tables are the Statement of Net Assets and the Statement of Revenues, Expenditures and Changes in Fund Assets for the Water System for the Fiscal Years 2003-04 through 2006-07, as summarized by the City from information presented in the City of Stockton Comprehensive Annual Reports for those same Fiscal Years and as summarized from unaudited Fiscal Year 2008-09 information.

(Remainder of this Page Intentionally Left Blank)

TABLE B-1
CITY OF STOCKTON
WATER SYSTEM
STATEMENT OF NET ASSETS
(Fiscal Years 2006-07 through 2008-09 and Unaudited Fiscal Year 2009-10)
(\$ in thousands)

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	(Unaudited) <u>2009-10</u>
ASSETS				
Current assets:				
Cash and investments	\$22,197	\$22,833	\$21,303	\$35,215
Cash and investment with fiscal agent	0	0	0	3,597
Receivables:				
Interest	196	271	181	244
Accounts and other receivables	2,844	2,530	2,928	2,758
Allowance for uncollectibles	(213)	(490)	(955)	(427)
Inventory of supplies	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
TOTAL CURRENT ASSETS	25,024	25,144	23,457	41,387
Noncurrent assets:				
Restricted assets:				
Cash and investments	2,946	3,796	3,201	3,179
Cash and investments with fiscal agents	19,811	16,731	14,222	133,757
Loans to other funds	—	711	7,596	7,846
Deferred charges	773	742	—	2,590
Capital assets, net:				
Nondepreciable	15,203	21,736	25,853	78,038
Depreciable, net	<u>87,773</u>	<u>87,656</u>	<u>91,066</u>	<u>93,584</u>
TOTAL NONCURRENT ASSETS	<u>126,506</u>	<u>130,661</u>	<u>142,649</u>	<u>318,994</u>
TOTAL ASSETS	151,530	155,805	166,106	360,381
LIABILITIES				
Current liabilities:				
Accounts payable	2,473	798	814	14,510
Due to other governments	113	178	68	158
Deposits and other liabilities	1,774	1,872	1,954	2,086
Accrued interest	434	427	420	3,605
Compensated absences - current	22	19	104	148
Other long-term debt - current	<u>513</u>	<u>600</u>	<u>628</u>	<u>688</u>
TOTAL CURRENT LIABILITIES	5,329	3,894	3,988	21,195
Noncurrent liabilities:				
Compensated absences – long term	3	36	70	80
Notes payable	731	610	545	477
Bonds payable	<u>35,737</u>	<u>35,199</u>	<u>34,636</u>	<u>208,279</u>
TOTAL NONCURRENT LIABILITIES	<u>36,471</u>	<u>35,845</u>	<u>35,251</u>	<u>208,836</u>
TOTAL LIABILITIES	41,800	39,739	39,239	230,031
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	87,305	90,381	95,936	96,480
Restricted for capital projects	2,946	3,796	3,201	3,179
Restricted for debt service	5	5	5	0
Unrestricted (deficit)	<u>19,474</u>	<u>21,884</u>	<u>27,725</u>	<u>30,690</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$109,730</u>	<u>\$116,066</u>	<u>\$126,867</u>	<u>\$130,349</u>

Sources: City of Stockton.

TABLE B-2
CITY OF STOCKTON
WATER SYSTEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
(Fiscal Years 2006-07 through 2008-09 and Unaudited Fiscal Year 2009-10)
(\$ in thousands)

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	(Unaudited) <u>2009-10</u>
OPERATING REVENUES:				
Charges for services	\$22,631	\$22,234	\$23,721	\$25,241
Miscellaneous	461	641	532	531
TOTAL OPERATING REVENUES	<u>23,092</u>	<u>22,875</u>	<u>24,253</u>	<u>25,772</u>
OPERATING EXPENSES:				
Operation and maintenance	8,605	6,861	9,303	7,214
General and administrative	3,807	4,784	4,632	2,034
Depreciation and amortization	2,265	2,291	2,285	2,354
Purchased water	5,275	6,365	6,188	9,163
TOTAL OPERATING EXPENSES	<u>19,952</u>	<u>20,301</u>	<u>22,408</u>	<u>20,765</u>
Operating Income (Loss)	<u>3,140</u>	<u>2,574</u>	<u>1,845</u>	<u>5,007</u>
REVENUES (EXPENSES):				
Federal grants and subsidies	0	0	0	2,482
Investment income:				
Interest Income	1,974	2,090	1,428	2,519
Net increase (decrease) in fair value of Investments	261	163	373	449
Interest expense and fiscal charges	(1,798)	(1,769)	(1,738)	(8,883)
Other Non-Operating Revenues	0	7	5	3
TOTAL OTHER FINANCE SOURCES (USES)	<u>437</u>	<u>491</u>	<u>68</u>	<u>(3,430)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	3,577	3,065	1,913	1,577
Capital Contributions	6,635	3,445	1,296	1,703
Transfers In	72	-	-	-
Transfers Out	(46)	(174)	(4)	(48)
SPECIAL ITEMS	-----	-----	7,596	250
CHANGES IN NET ASSETS	<u>10,238</u>	<u>6,336</u>	<u>10,801</u>	<u>3,482</u>
NET ASSETS (DEFICIT), BEGINNING OF YEAR	99,492	109,730	116,066	126,867
NET ASSETS (DEFICIT), END OF YEAR	<u>\$109,730</u>	<u>\$116,066</u>	<u>\$126,867</u>	<u>\$130,349</u>

Source: City of Stockton.

(This Page Intentionally Left Blank)

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture and the Installment Purchase Contract. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of such documents. All capitalized terms not defined in this summary or the forepart of this Official Statement shall have the meaning set forth in the Indenture and in the Installment Purchase Contract.

DEFINITIONS OF CERTAIN TERMS

“2002 Installment Purchase Agreement” means the installment purchase agreement, dated as of May 1, 2002, between the City and California Statewide Communities Development Authority.

“2005 Installment Purchase Agreement” means the installment purchase agreement, dated as of November 1, 2005, between the City and the Authority.”

“2010 Water Project” means those certain additions, betterments, extensions and improvements to the Water System financed with proceeds of the Series 2010A Bonds, consisting of a portion of the City’s Delta Water Supply Project, together with such additions thereto or less such deletions therefrom as shall be specified by the City (in accordance with the Installment Purchase Contract) stating that such additions constitute part of the 2010 Water Project or that such deletions do not constitute part of the 2010 Water Project, as the case may be.

“Accountant’s Report” means an audited financial report prepared and signed by an Independent Certified Public Accountant.

“Act” means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended) and all laws amendatory thereof or supplemental thereto.

“Adjusted Net System Revenues” means, for any Fiscal Year, the Net System Revenues for such Fiscal Year less, to the extent included in the calculation of Net System Revenues for such Fiscal Year, all amounts referred to in clause (G) of the definition of Parity Debt Service received or expected to be received by the City or fiduciary, on behalf of the City, in such Fiscal Year.

“Alternate Credit Facility” shall mean a Credit Facility issued to replace a Credit Facility as provided in the Indenture.

“Authority” means the Stockton Public Financing Authority, a joint exercise of powers entity duly organized and existing under and by virtue of the Act.

“Available Money” means (i) proceeds of drawings on the Credit Facility, including investment earnings thereon, (ii) proceeds of the remarketing of the Series 2010A Bonds deposited in the Bond Purchase Fund in accordance with the Indenture, including the investment earnings thereon, (iii) the proceeds of any contracts, bonds or notes issued or incurred by or on behalf of the City to refund the Series 2010A Bonds, and (iv) moneys, including investment earnings thereon, for which an opinion of counsel nationally recognized as experienced in bankruptcy matters has been delivered to the Trustee to

the effect that the use of such amounts would not be voidable as preferential payments under federal bankruptcy laws.

“Balloon Obligation” means any Parity Obligation designated as such in such obligation or in the related Issuing Document.

“Balloon Payments” means any payments designated as such in any Balloon Obligation or in the related Issuing Document.

“Bank Bonds” shall mean Series 2010A Bonds purchased by a Credit Facility Provider or its assignee pursuant to a draw on the Credit Facility, if any.

“Bond Counsel” means any attorney at law or firm of attorneys selected by the City, of nationally-recognized standing in matters pertaining to the federal tax exemption of interest with respect to obligations of states and political subdivisions.

“Bond Payment Fund” means the fund by that name established pursuant to the Indenture.

“Bond Purchase Fund” shall mean the fund with that name established with the Tender Agent pursuant to the Indenture.

“Business Day” means any day other than (i) a Saturday or Sunday or (ii) a day on which banks located (A) in the city in which the Corporate Trust Office of the Trustee is located, (B) in the city in which drawings under the applicable Credit Facility, if any, are to be honored is located, (C) in the city in which the Corporate Trust Office of the Tender Agent at which the Series 2010A Bonds may be tendered for purchase by the owners thereof is located or (D) in the city in which the principal office of the Remarketing Agent is located, are authorized or required to remain closed or (iii) a day on which The New York Stock Exchange is closed.

“Certificate” or “Request” means (i) with respect to the City, an instrument in writing signed on behalf of the City by the Mayor, Vice-Mayor, City Manager or Chief Financial Officer of the City, or by any other officer of the City duly authorized by the City Council of the City to sign documents on its behalf with respect to the matters referred to therein; and (ii) with respect to the Authority, by the Chairperson, Vice-Chairperson, Executive Director or Treasurer of the Authority, or by any other officer of the Authority duly authorized by the Board of Directors of the Authority to sign documents on its behalf with respect to the matters referred to therein.

“City” means the City of Stockton, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and the laws of the State and its Charter.

“City Revenue Fund” means the System Revenue Fund established pursuant to the Existing Parity Obligations and continued under the Installment Purchase Contract.

“Code” means the Internal Revenue Code of 1986 and the regulations of the United States Department of the Treasury issued thereunder, and reference to any particular section of the Code shall include reference to all successor sections of the Code.

“Consultant” means the consultant, consulting firm, financial consultant, financial consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the City to perform acts or carry out the duties provided for such consultant in the Installment

Purchase Contract. Such consultant, consulting firm, financial consultant, financial consulting firm, engineer, architect, engineering firm or architectural firm shall be nationally or regionally recognized within its profession for work of the character required. Any such accountants or accounting firms shall be an Independent Certified Public Accountant licensed to practice in the State of California.

“Conversion,” “Convert” or “Converted” shall mean or refer to a conversion of the Series 2010A Bonds from one Interest Rate Period to another Interest Rate Period as provided in the Indenture.

“Coverage Requirement” means, for any Fiscal Year or any other period, an amount of Adjusted Net System Revenues equal to at least one hundred fifteen per cent (115%) of Parity Debt Service for such Fiscal Year or such other period, as applicable.

“Credit Facility” shall mean any irrevocable, direct-pay letter of credit issued in favor of the Trustee by the Credit Facility Provider and all amendments, extensions, renewals or substitutions thereof pursuant to its terms, and upon the effectiveness of any Alternate Credit Facility, such Alternate Credit Facility.

“Credit Facility Provider” shall mean the issuer of the Credit Facility, and upon the effectiveness of an Alternate Credit Facility, the issuer of such Alternate Credit Facility. The initial Credit Facility Provider shall be Union Bank, N.A.

“Credit Facility Provider Agreement” shall mean the agreement between the City and the Credit Facility Provider pursuant to which the Credit Facility is issued. The initial Credit Facility Provider Agreement shall be the Reimbursement Agreement dated as of October 1, 2010, among the City, the Authority and Union Bank, N.A.

“Credit Facility Provider Obligations” means Credit Facility Provider Reimbursement Obligations and all other obligations of the City under the applicable Credit Facility Provider Agreement.

“Credit Facility Provider Reimbursement Obligations” means any and all obligations of the City to reimburse the Credit Facility Provider for any drawings under the Credit Facility and all obligations to repay the Credit Facility Provider for any liquidity advance with respect to Bank Bonds, including in each instance all accrued interest thereon.

“Credit Provider Reimbursement Obligations” means obligations of the City to repay, from Net System Revenues, amounts advanced by a municipal bond insurance company, bank or other financial institution or organization as credit support or liquidity for Parity Obligations, including Credit Facility Provider Reimbursement Obligations.

“Drought Relief Loan” means the \$1,834,000 United States Department of Commerce Economic Development Administration loan.

“DTC” shall mean The Depository Trust Company, New York, New York, and its successors and assigns.

“Existing Parity Obligations” means the Drought Relief Loan, the 2002 Installment Purchase Agreement and the 2005 Installment Purchase Agreement.

“Fiscal Year” means the twelve-month period terminating on June 30 of each year, or any other annual accounting period thereafter selected and designated by the City or the Authority as its Fiscal Year in accordance with applicable law.

“Federal Securities” means United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations for which the full faith and credit of the United States of America are pledged for the payment of interest and principal, or securities evidencing direct ownership interests in such obligations or in specified portions of the interest on or principal of such obligations that are held by a custodian in safekeeping on behalf of the owners of such securities.

“Fitch” means Fitch, Inc., a Delaware corporation, and its successors and assigns, but only to the extent that such entity is then rating the Series 2010A Bonds at the request of the Authority.

“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” means the Indenture dated as of October 1, 2010, by and between the Authority and the Trustee, as originally entered into and as it may from time to time be amended or supplemented in accordance with the Indenture.

“Independent Certified Public Accountant” means any firm of certified public accountants duly licensed and entitled to practice and practicing as such under the laws of the State, appointed and paid by the Authority, and each of whom –

- (1) is in fact independent and not under the domination of the Authority;
- (2) does not have a substantial financing interest, direct or indirect, in the operations of the Authority or the City; and
- (3) is not connected with the Authority or the City as a member, councilmember, officer or employee of the Authority or the City, but which firm may be regularly retained by the Authority or the City to audit the accounting records of the Authority or the City and make reports thereon to the Authority or the City.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 55 Broad Street, 28th floor, New York, New York, 10004; Moody’s Investor’s Service “Municipal and Government,” 5050 Center Drive, Suite 150, Charlotte, North Carolina, 28217, Attention: Called Bonds Department; Standard & Poor’s Corporation, “Called Bond Record,” 65 Broadway, 16th Floor, New York, New York, 10064; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to called bonds as the City may designate.

“Installment Payment Date” means each date on which Installment Payments are scheduled to be paid by the City pursuant to the Installment Purchase Contract.

“Installment Payments” means the installment payments payable by the City pursuant to the Installment Purchase Contract and in the amounts and at the times set forth in the Installment Purchase Contract.

“Installment Purchase Contract” means the Installment Purchase Contract, dated as of October 1, 2010, by and between the City and the Authority, as originally entered into or as it may from time to time be amended or supplemented in accordance with its terms.

“Interest Account” means the account by that name established pursuant to the Indenture.

“Interest Accrual Date” shall mean with respect to the Series 2010A Bonds for any Weekly Interest Rate Period, the first day thereof, and thereafter, the first Wednesday of each month during that Weekly Interest Rate Period.

“Interest Payment Date” with respect to the Series 2010A Bonds shall mean for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if such first Wednesday shall not be a Business Day, the next succeeding Business Day and the Maturity Date.

“Issuing Document” means the Installment Purchase Contract and any installment purchase contract, indenture, trust agreement or other document that provides for the issuance of Parity Obligations.

“Mandatory Credit Facility Tender” shall mean the mandatory tender of Series 2010A Bonds pursuant to the Indenture upon receipt by the Trustee of written notice from the Credit Facility Provider that (i) an event has occurred under the Credit Facility Provider Agreement which gives the Credit Facility Provider the option to cause a mandatory tender of the Series 2010A Bonds or (ii) the amount of an interest drawing under the Credit Facility will not be reinstated and, in the case of both (i) and (ii), directing that all Outstanding Series 2010A Bonds secured by the Credit Facility be tendered for purchase.

“Maximum Rate” shall mean the rate of 12% per annum calculated in the same manner as interest is calculated for the particular interest rate on the Series 2010A Bonds; provided, however, to the extent permitted by law, Bank Bonds shall not be subject to any Maximum Rate.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, but only to the extent that such entity is then rating the Series 2010A Bonds at the request of the Authority.

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

“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water or capacity purchased or otherwise acquired for the Water System whether or not such water or capacity is delivered or capable of being delivered or otherwise made available to or received by or for the account of the Water System and all costs of treating water for the Water System and all expenses necessary to maintain and preserve the Water System in good repair and working order and including all administrative and management costs of the City that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Installment Purchase Contract or of any other Parity Obligations or obligations subordinate to Parity Obligations, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iv) charges for the payment of principal and interest on any debt service on account of any Parity Obligation or obligation subordinate to the Parity Obligations.

“Outstanding” when used as of any particular time with reference to Series 2010A Bonds, means and subject to the provisions of the Indenture concerning disqualified Series 2010A Bonds, all Series 2010A Bonds except –

(1) Series 2010A Bonds canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Series 2010A Bonds paid or deemed to have been paid within the meaning of the provisions of the Indenture concerning discharge of Series 2010A Bonds; and

(3) Series 2010A Bonds in lieu of or in substitution for which other Series 2010A Bonds shall have been executed and delivered by the Trustee pursuant to the Indenture.

“Owner” or “Bond Owner” or “Owner of Bonds” or any similar term, when used with respect to the Series 2010A Bonds, means any person who shall be the registered owner of any Outstanding Bond.

“Parity Debt Service” means, with respect to any Parity Obligation for any period of calculation, those portions of the payments of interest on and principal and redemption premiums, if any, required to be made during such period under such Parity Obligation, less any such interest that is to be paid from proceeds of such Parity Obligation, less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds and capitalized interest funds established for such Parity Obligation; provided, that for purposes of the calculation of Parity Debt Service, the following shall apply:

(A) Interest on Variable Interest Rate Obligations. Interest on any Variable Interest Rate Obligation shall be assumed to bear interest at a fixed rate equal to the higher of:

(1) the actual rate on the date of calculation, or if such Parity Obligation is not yet outstanding, the initial rate (if established and binding); or

(2) if such Parity Obligation has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, or if such Parity Obligation has not been outstanding for the twelve prior months, the average rate borne by reference to an index comparable to that to be utilized in determining the interest rate for the Parity Obligation to be issued.

(B) Interest on Parity Obligations with respect to which a Payment Agreement is in force. For purposes of the definition of Parity Debt Service, interest deemed to be payable on any Parity Obligation with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of such Parity Obligation and such Payment Agreement, including but not limited to the effects that (i) such Parity Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Parity Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Parity Obligation with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Parity

Obligation plus the applicable Payment Agreement Payments minus the applicable Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable the Payment Agreement Receipts and the Payment Agreement Payments under such Parity Obligation, the following assumptions shall be made:

(1) City Obligated to Pay Net Variable Payments. If a Payment Agreement has been entered into by the City with respect to a Parity Obligation resulting in the payment of a net variable interest rate with respect to such Parity Obligation and Payment Agreement by the City, the interest rate on such Parity Obligation for future periods when the actual interest rate cannot yet be determined shall be assumed, during the period the Payment Agreement is in effect, to be equal to the sum of (i) the fixed rate or rates stated in such Parity Obligation, minus (ii) the fixed rate paid by the counterparty to the City, plus (iii) the lesser of (A) the interest rate cap, if any, provided by the counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the higher of (x) the actual variable rate or rates payable by the City to the Counterparty pursuant to the Payment Agreement on the date of calculation, or if such Payment Agreement is not yet outstanding, the initial rate (if established and binding) and (y) if such Payment Agreement has been in effect for at least twelve months, the average variable rate or rates payable by the City to the counterparty pursuant to the Payment Agreement over the twelve months immediately preceding the date of calculation, or if such Payment Agreement has not been outstanding for the twelve prior months, the average variable rate or rates that would have been payable by the City to the counterparty pursuant to such Payment Agreement for the twelve prior months determined by reference to an index comparable to that to be utilized in determining the variable rate for the Payment Agreement to be executed.

(2) City Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the City with respect to a Parity Obligation which is reasonably believed, in the opinion of a financial consultant or financial consulting firm, to result in the payment of a net fixed interest rate with respect to such Parity Obligation and Payment Agreement by the City, the interest on such Parity Obligation shall be included in the calculation of the Parity Debt Service during the period the Payment Agreement is in effect by including for each calculation period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement;

(C) For purposes of calculating the Parity Debt Service on any Balloon Obligation, it shall be assumed that the principal of such Balloon Obligation will be amortized in a manner resulting in approximately equal annual installments of debt service over a term of thirty (30) years, at an assumed interest rate determined by reference to subparagraph (A) of this definition of Parity Debt Service;

(D) For purposes of any Parity Obligation or portions thereof the debt service requirements under which contain no current interest component but which are sold at a discount and which discount accretes with respect to such Parity Obligation or portions thereof, such accreted discount shall be treated as interest in the calculation of Parity Debt Service;

(E) For purposes of any Parity Obligations that constitute paired obligations, the interest rate on such Parity Obligations shall be the resulting linked rate or the effective fixed interest rate (each as certified by a financial consultant or financial consulting firm) reasonably expected to be paid by the City with respect to such paired obligations;

(F) The amount on deposit in a debt service reserve fund with respect to a Parity Obligation on any date of calculation of Parity Debt Service shall be deducted from the amount of principal due at the final maturity of such Parity Obligation to the extent the amount in such debt service reserve fund is in excess of such amount of principal, such excess shall be applied to the full amount of principal due, in each preceding year, in inverse order of due date, until such amount is exhausted; and

(G) If, under any statutory scheme, during any period of calculation the City or a fiduciary, on behalf of the City, receives or expects to receive any subsidy, reimbursement or other payment from a governmental entity (including, but not limited to, the federal government of the United States of America) in connection with, or related to, payments of principal of and/or interest on Parity Obligations, then principal of and/or interest on such Parity Obligations during such period of calculation shall be disregarded and not included in calculating Parity Debt Service to the extent that such subsidy, reimbursement or other payment is received or expected to be received by the City or fiduciary, on behalf of the City, during such period of calculation.

“Parity Obligations” means the Existing Parity Obligations, the Installment Payments, the Credit Facility Provider Reimbursement Obligations, any obligation (including, but not limited to, any installment payment obligation) payable on a parity with the Installment Payments from Net System Revenues as provided in the Installment Purchase Contract and the regularly scheduled payments under any Payment Agreement which have been designated by the City as a “Parity Obligation” in the Payment Agreement, but excluding, in each case, any Termination Payments.

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

“Payment Agreement Payments” means the regularly scheduled amounts (excluding Termination Payments) periodically required to be paid by the City under all Payment Agreements.

“Payment Agreement Receipts” means the regularly scheduled amounts (excluding Termination Payments) required to be paid by all counterparties to the City under all Payment Agreements.

“Permitted Investments” means any of the following to the extent then authorized by law for the investment of money of the Authority:

- (1) Direct obligations (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America;
- (2) Direct obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America:
 - Export-Import Bank
 - Farm Credit System Financial Assistance Corporation

- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

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

- Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which 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 three hundred sixty (360) days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(5) 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 two hundred seventy (270) days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" by S&P, including any such fund managed, advised or sponsored by the Trustee or any of its affiliates;

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

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of S&P and Moody’s or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in such irrevocable instructions, as appropriate;

(8) General obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P;

(9) Investment agreements (supported by appropriate opinions of counsel) with notice to S&P;

(10) Shares in the California Asset Management Program (established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State) that invests exclusively in investments permitted by Section 53635 of the Government Code of the State, as now existing and as it may be amended from time to time;

(11) The Local Agency Investment Fund (established under Sections 53600-53609 of the California Government Code, as amended or supplemented from time to time); and

(12) Other forms of investment agreements (including repurchase agreements and forward delivery agreements) with notice to S&P.

The value of the above investments shall be determined at fair market value.

“Principal Account” means the account by that name established pursuant to the Indenture.

“Principal Corporate Trust Office” means the corporate trust office of the Trustee in San Francisco, California, or such other office designated by the Trustee from time to time.

“Project” shall mean the 2010 Water Project, as defined in the Installment Purchase Contract.

“Purchase Date” shall mean any date on which Series 2010A Bonds are required to be purchased pursuant to the Indenture.

“Purchase Price” shall mean the purchase price to be paid to the Owners of Series 2010A Bonds purchased pursuant to the Indenture, which shall be equal to the principal amount thereof tendered for purchase, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date (if the Purchase Date is not an Interest Payment Date).

“Rating Agencies” means collectively Fitch, Moody’s and S&P, together with any other nationally recognized municipal securities rating agency or agencies selected by the Authority that is then rating any Parity Obligations at the request of the Authority.

“Record Date” shall mean with respect to Series 2010A Bonds, with respect to any Interest Payment Date in respect to any Weekly Interest Rate Period, the Business Day immediately preceding such Interest Payment Date.

“Redemption Account” means the account within the Bond Payment Fund by that name established pursuant to the Indenture.

“Remarketing Agent” shall mean each Person qualified under the Indenture to act as Remarketing Agent for Series 2010A Bonds and appointed by the Authority from time to time. The initial Remarketing Agent for the Series 2010A Bonds shall be Citigroup Global Markets Inc.

“Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Reserve Requirement” shall mean as of any date of determination, the least of (a) ten per cent (10%) of the sale proceeds of the Series 2010A Bonds, or (b) the maximum annual Installment Payments payable under the Installment Purchase Contract in the then current or any future one-year period ending on October 1, or (c) one hundred twenty-five per cent (125%) of the average annual Installment Payments payable under the Installment Purchase Contract in the then current and all future one-year periods ending on October 1, all as computed by the City under the Code and specified in writing to the Trustee.

“Revenues,” means amounts received by the Authority pursuant to or with respect to the Installment Purchase Contract and all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture.

“Securities Depository” shall mean DTC or, if applicable, any successor securities depository appointed pursuant to the Indenture.

“Series 2010A Bonds” means the Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) authorized, issued and delivered under the Indenture that are at any time outstanding pursuant thereto.

“S&P” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, but only to the extent that such entity is then rating the Series 2010A Bonds at the request of the Authority.

“State” means the State of California.

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

“Tax Certificate” means the Tax Certificate and Agreement executed and delivered by the Authority and the City on the date of execution and delivery of the Series 2010A Bonds, including any and all exhibits attached thereto.

“Tender Agent” shall mean each Person qualified under the Indenture to act as Tender Agent with respect to the Series 2010A Bonds and so appointed by the City and so acting from time to time, and its successors. The initial Tender Agent shall be Wells Fargo Bank National Association. While the Credit Facility is in effect, the Tender Agent shall at all times be the Trustee.

“Termination Payments” means any payments due and payable by the City in connection with the termination of a Payment Agreement.

“Treasurer” means the Treasurer of the Authority.

“Trustee” means Wells Fargo Bank National Association, a national banking association having a principal corporate trust office in San Francisco, California, or such other office designated by the Trustee from time to time.

“Variable Interest Rate” means any variable interest rate or rates to be paid under any Parity Obligation, the method of computing which variable interest rate shall be as specified in such obligation, which obligation shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

“Variable Interest Rate Obligations” means, for any period of time, any Parity Obligations that bear a Variable Interest Rate during such period.

“Water Project” means any additions, betterments, extensions or improvements to the Water System designated by the City Council of the City as a designated Water Project for the City.

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

“Water System” means the whole and each and every part of the water system of the City including the portion thereof existing on the date of the Installment Purchase Contract and including all additions, betterments, extensions and improvements to such system or any part thereof and hereafter acquired or constructed.

“Weekly Interest Rate” shall mean a variable interest rate for the Series 2010A Bonds established in accordance with the Indenture.

“Weekly Interest Rate Period” shall mean each period during which a Weekly Interest Rate is in effect for the Series 2010A Bonds.

“Written Consent of the Authority or the City,” “Written Order of the Authority or the City,” “Written Request of the Authority or the City,” and “Written Requisition of the Authority or the City” mean, respectively, a written consent, order, request or requisition signed by or on behalf of (i) the Authority by its Chairperson, Vice-Chairperson, Executive Director or Treasurer or by any other officer of the Authority duly authorized by the Board of Directors of the Authority to sign documents on its

behalf with respect to the matters referred to therein, or (ii) the City by its Mayor, Vice-Mayor, City Manager or Chief Financial Officer or by any other officer of the City duly authorized by the City Council of the City to sign documents on its behalf with respect to the matters referred to therein.

THE INDENTURE

General

The Indenture sets forth the terms of the Series 2010A Bonds, the nature and extent of the security for the Series 2010A Bonds, various rights of the Owners of the Series 2010A Bonds, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized below. Other provisions are summarized in the forepart of this Official Statement under the caption "THE SERIES 2010A BONDS." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Equal Security

In consideration of the acceptance of the Series 2010A Bonds by the Owners thereof, the Indenture shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Owners to secure the full and final payment of the interest and principal and redemption premiums, if any, on the Series 2010A Bonds, subject to the agreements, conditions, covenants and terms contained therein; and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Series 2010A Bonds over any other Series 2010A Bonds by reason of the number or date thereof or the time of sale, execution or delivery thereof or otherwise for any cause whatsoever, except as expressly provided in the Indenture or therein.

Pledge of Revenues

All Revenues received by the Authority are assigned pursuant to the Indenture by the Authority to the Trustee for the benefit of the Owners of the Series 2010A Bonds and the Credit Facility Provider, and are irrevocably pledged to the payment of the interest on and principal of and redemption premiums, if any, on the Series 2010A Bonds and all amounts owed to the Credit Facility Provider, if any, as provided in the Indenture, and the Revenues shall not be used for any other purpose while any of the Series 2010A Bonds remain Outstanding or any amounts owed to the Credit Facility Provider, if any; provided, that out of the Revenues there may be applied such sums for such purposes as are permitted under the Indenture. Such pledge shall constitute a first pledge of and charge and lien upon the Revenues and all money on deposit in the accounts and funds established under the Indenture for the payment of the interest on and principal of and redemption premiums, if any, on the Series 2010A Bonds and all amounts owed to the Credit Facility Provider, if any, in accordance with the terms of the Indenture and the Series 2010A Bonds. The Authority (to the extent of its rights, if any, in the Bond Payment Fund and all money on deposit in the accounts and funds established under the Indenture, although it is the intent of the parties thereto that the Authority not have any right, title or interest in or to the Bond Payment Fund or such money) pledges and grants a lien on and a security interest in the Bond Payment Fund and such money to the Trustee for the benefit of the Owners and the Credit Facility Provider, if any.

All Installment Payments shall be paid directly by the City to the Trustee, and all Installment Payments received by the Trustee shall be held in trust by the Trustee under the terms of the Indenture for the benefit of the City until deposited in the funds provided in the Indenture, whereupon

such money shall be held in trust in such funds by the Trustee for the benefit of the Owners and the Credit Facility Provider, if any.

Deposit of Revenues

The Trustee shall deposit all Revenues paid to it into the Bond Payment Fund and shall transfer such funds to the Interest Account, Principal Account, Redemption Account and the Reserve Fund in the manner and at the times provided. The Bond Payment Fund (and all accounts contained therein) shall be maintained so long as any Series 2010A Bonds are Outstanding, the Credit Facility remains in effect or any amounts remain owing to the Credit Facility Provider, if any. All moneys in the Bond Payment Fund (and the accounts contained therein) shall be disbursed only for the purposes and uses hereinafter authorized; provided, that any money in such fund or accounts not required to pay the principal and interest and redemption premiums, if any, on the Series 2010A Bonds or to pay any Credit Facility Provider Obligations shall, on the Business Day immediately following each Interest Payment Date, be transferred to the Authority to be used for any lawful purpose of the Authority. The Bond Payment Fund, and all accounts thereof, shall be an Eligible Account held in trust for the benefit of the Owners. In the event that the Bond Payment Fund, or any accounts thereof, ceases to be an Eligible Account, the Trustee shall promptly (and in any case, within 30 calendar days) move such Bond Payment Fund or account thereof to cause it to be an Eligible Account.

(a) Interest Account. On or prior to each Interest Payment Date, the Trustee shall transfer to the Interest Account that amount of money representing the portion of the Revenues constituting the interest becoming due and payable on such Interest Payment Date. All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series 2010A Bonds on their respective Interest Payment Dates or to reimburse the Credit Facility Provider, if any, for drawings on the Credit Facility to pay such amounts. Moneys received from drawings on the Credit Facility to pay interest on the Series 2010A Bonds shall be deposited in a separate subaccount of the Interest Account designated the "Credit Facility Subaccount" and shall never be commingled with moneys from any other source. Moneys in the Interest Account shall be used to pay interest on the Series 2010A Bonds in the following order: (i) first, amounts drawn by the Trustee under the Credit Facility and deposited into the Credit Facility Subaccount in the Interest Account; (ii) second, other funds on deposit in the Interest Account, other than amounts received by the Trustee in respect of drawings under a Credit Facility.

(b) Principal Account. On or prior to each maturity date, the Trustee shall transfer to the Principal Account that amount of money representing the portion of the Revenues constituting the principal becoming due and payable on such maturity date. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Series 2010A Bonds on their respective maturities or on mandatory redemption prior thereto pursuant to the Indenture or to reimburse the Credit Facility Provider, if any, for drawings on the Credit Facility to pay such amounts. Moneys received from drawings on the Credit Facility to pay principal on the Series 2010A Bonds shall be deposited in a separate subaccount of the Principal Account designated as the "Credit Facility Subaccount" and shall never be commingled with moneys received from any other source. Moneys in the Principal Account shall be used to pay principal of the Series 2010A Bonds in the following order: (i) first, amounts drawn by the Trustee under the Credit Facility and deposited into the Credit Facility Subaccount in the Principal Account; (ii) second, other funds on deposit in the Principal Account, other than amounts received by the Trustee in respect of drawings under a Credit Facility.

(c) Redemption Account. Any prepayments paid to the Trustee pursuant to the Installment Purchase Contract shall immediately be transferred to the Redemption Account. All

money in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal and redemption premiums, if any, on the Series 2010A Bonds to be redeemed on their respective redemption dates or to reimburse the Credit Facility Provider, if any, for drawings on the Credit Facility to pay such amounts. Moneys in the Redemption Account shall be used to pay the interest and principal and redemption premiums, if any, on the Series 2010A Bonds to be redeemed in the following order: (i) first, amounts drawn by the Trustee under the Credit Facility and deposited into a separate subaccount in the Redemption Account; (ii) second, other funds on deposit in the Redemption Account, other than amounts received by the Trustee in respect of drawings under a Credit Facility.

(d) Reserve Fund. If moneys in the Reserve Fund are less than the Reserve Requirement, after making the deposits required to be made to the Principal Account, Interest Account and Redemption Account as provided in this section, the Trustee shall deposit available Revenues in the Reserve Fund in accordance with the Indenture until the balance in the Reserve Fund equals the Reserve Requirement.

Compliance with Indenture and Agreements

The Authority will not execute and the Trustee will not authenticate or deliver any Series 2010A Bonds in any manner other than in accordance with the provisions of the Indenture; and the Authority will not suffer or permit any default by it to occur thereunder, but will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by it.

The Authority will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract required to be observed and performed by the Authority, and will enforce such agreements against the other party thereto in accordance with their terms.

Tax Covenants

The Authority will not use or permit the use of any proceeds of the Series 2010A Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations and will not take or permit to be taken any other action or actions which would cause any Series 2010A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code, “private activity bonds” within the meaning of Section 141(a) of the Code or “federally guaranteed” within the meaning of Section 149(b) of the Code and any applicable requirements thereunder and under Section 103(c) of the Code. The Authority will observe and will not violate the requirements of Section 148 of the Code and any applicable regulations thereunder, and the Authority will comply with all requirements of Sections 148 and 149(b) of the Code and any applicable regulations thereunder to the extent applicable to the Series 2010A Bonds. In the event that at any time the Authority is of the opinion that for purposes of its tax covenants that it is necessary to restrict or to limit the yield on the investment of any money held by the Trustee under the Indenture, the Authority shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

The Authority will comply with the provisions and procedures of the Tax Certificate, and the Trustee shall only be obligated to follow the directions of the Authority agreed to be followed by it under the Indenture.

The Authority will not use or permit the use of any proceeds of the Series 2010A Bonds or any funds of the Authority, directly or indirectly, in any manner, and will not take or omit to take any

action that would cause any of the Series 2010A Bonds to be treated as an obligation not described in Section 103(a) of the Code and any applicable regulations thereunder or which would affect the exemption of interest on the Series 2010A Bonds from State personal income taxes.

Notwithstanding any provisions summarized in this section, if the Authority provides the Trustee with an opinion of Bond Counsel that any specified action required under the provisions summarized in this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest with respect to the Series 2010A Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions summarized in this section, and, notwithstanding the provisions of the Indenture concerning amendments thereof, the tax covenants under the Indenture shall be deemed to be modified to that extent.

Prosecution and Defense of Suits

The Authority will defend against every action, suit or other proceeding at any time brought against the Trustee, the Authority or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Revenues or involving any rights or obligations of the Trustee, the Authority or any Owner under the Indenture; provided, that the Trustee, the Authority or any Owner at its, his or her election may appear in and defend any such action, suit or other proceeding. The Authority will indemnify and hold harmless the Trustee and the Owners against any and all liability claimed or asserted by any person arising out of any such receipt, deposit or disbursement, and will indemnify and hold harmless the Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights under the Indenture or under the Series 2010A Bonds, provided that such litigation shall be concluded favorably to such Owners' contentions therein.

Accounting Records and Statements

The Trustee shall keep proper books of record and account in accordance with trust accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Revenues and the proceeds of the Series 2010A Bonds. Such records shall be open to inspection by the Authority, the Credit Facility Provider and by any Owner at any reasonable time during regular business hours on reasonable notice. Not later than the fifteenth (15th) day of each month, commencing on the first calendar month after the initial issuance of the Series 2010A Bonds, and continuing so long as any Series 2010A Bonds are Outstanding, the Trustee will furnish to the Authority and to the City a complete statement covering the receipts, deposits and disbursements of the funds held by the Trustee hereunder for the preceding month; provided that the Trustee shall not be obligated to provide an accounting for any fund or account that (a) has a balance of \$0.00 and (b) has not had any activity since the last reporting date.

Further Assurances

Whenever and so often as requested to do so by the Trustee, the Credit Facility Provider, if any, or any Owner, the Authority will promptly execute and deliver, or cause to be executed and delivered, all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners the benefit, protection and security conferred, or intended to be conferred, upon them by the Indenture.

Amendment of or Supplement to the Indenture

The Indenture and the rights and obligations of the Authority, the City the Owners and the Trustee may be amended or supplemented at any time by an amendment or supplement with the written consent of the Credit Facility Provider, if any, and if none, the written consent of the Owners of a majority in aggregate principal amount of the Series 2010A Bonds then Outstanding, exclusive of the Series 2010A Bonds disqualified as provided in the Indenture. No such amendment or supplement shall (1) reduce the rate of interest of any Series 2010A Bond or extend the time of payment thereof or reduce the amount of principal or redemption premium, if any, of any Series 2010A Bond or extend the maturity thereof or otherwise alter or impair the obligation of the Authority to pay the interest and principal and redemption premium, if any, thereon at the time and place and at the rate and in the currency and from the funds provided therein without the prior written consent of the Owner of the Series 2010A Bond so affected, or (2) modify any of the rights or obligations of the Trustee without its prior written consent thereto.

The Indenture and the rights and obligations of the Authority and the City and the Owners and the Trustee may also be amended or supplemented at any time by an amendment or supplement which shall become binding upon execution without the written consents of any Owners, but only with the written consent of the Credit Facility Provider, if any, and to the extent permitted by law and only if such amendment or supplement does not materially adversely affect the Owners, including, but not limited to, amendments or supplements:

(a) to add to the agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by the Authority or the City other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right reserved therein to or conferred therein on the Authority or the City;

(b) to modify, amend or supplement the Indenture in such manner as to preserve the exemption of the Series 2010A Bonds from the registration requirements of the Securities Act of 1933 or any similar federal statute in effect or to permit the qualification of the Indenture under the Trust Indenture Act of 1939 or any similar federal statute in effect;

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which the Authority or the City may deem desirable or necessary, and which shall not adversely affect the interests of the Owners;

(d) to make any modifications or changes necessary or appropriate in the Opinion of Bond Counsel to preserve or protect the exclusion from gross income for federal income tax purposes of interest on the Series 2010A Bonds; and

(e) to make any modification or amendment to the Indenture which will be effective upon the remarketing of the Series 2010A Bonds following the mandatory tender of the Series 2010A Bonds.

Disqualified Series 2010A Bonds

Series 2010A Bonds known to the Trustee to be held for the account of the Authority or the City shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and shall not be entitled to consent to or take any other

action provided therein, and the Trustee may adopt appropriate regulations to require each Owner, before his or her consent provided for therein shall be deemed effective, to reveal if the Series 2010A Bonds as to which such consent is given are disqualified as provided in the Indenture.

Endorsement or Replacement of Series 2010A Bonds After Amendment or Supplement

After the effective date of any action taken as provided in the Indenture, the Trustee may determine that the Series 2010A Bonds may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case, upon demand of the Owner of any Outstanding Bond and presentation of the Series 2010A Bond for such purpose at the Principal Corporate Trust Office of the Trustee, a suitable notation as to such action shall be made on such Series 2010A Bond. If the Trustee shall so determine, new bonds so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Bonds such new Series 2010A Bonds shall be exchanged without cost to each Owner for Series 2010A Bonds then Outstanding at the Principal Corporate Trust Office of the Trustee, upon surrender of such Outstanding Bonds. All Series 2010A Bonds surrendered to the Trustee pursuant to the provisions of the Indenture shall be canceled by the Trustee and shall not be redelivered.

Amendment or Supplement by Mutual Consent

The provisions of the Indenture regarding amendments or supplements shall not prevent any Owner from accepting any amendment or supplement as to the particular Series 2010A Bonds owned by him or her, provided that due notation thereof is made on such Series 2010A Bonds.

Events of Default

The following events shall be “Events of Default” under the Indenture:

- (a) Default by the Authority in the due and punctual payment of the principal of any Series 2010A Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise;
- (b) Default by the Authority in the due and punctual payment of any installment of interest on any Series 2010A Bonds when and as the same shall become due and payable;
- (c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Series 2010A Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee;
- (d) The Authority shall file 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 shall approve a petition filed with or without the consent of the Authority 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 shall assume custody or control of the Authority or of the whole or any substantial part of its property;

(e) The Credit Facility Provider shall have notified the Trustee (other than by notice of a Mandatory Credit Facility Tender) that an Event of Default (as defined in the Credit Facility) has occurred and is continuing under the Credit Facility;

(f) The Credit Facility Provider shall have notified the Trustee (other than by notice of a Mandatory Credit Facility Tender) that the Credit Facility has not been reinstated to pay interest on the Series 2010A Bonds for any Interest Rate Period for which the Credit Facility is required; and

(g) An Event of Default (as defined in the Installment Purchase Contract) has occurred and is continuing.

Remedies Upon Event of Default.

If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, with the written consent of the Credit Facility Provider, if any, and if none, the written consent of the Owners of not less than a majority in aggregate principal amount of the Series 2010A Bonds then Outstanding and shall (i) at the direction of the Credit Facility Provider, if any, and if none, the written consent of the Owners of not less than a majority in aggregate principal amount of the Series 2010A Bonds then Outstanding or (ii) in the event of an occurrence of an Event of Default as described in subparagraph (e) or (f) above, declare the principal of all of the Series 2010A Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Series 2010A Bonds contained to the contrary notwithstanding. Interest on the Series 2010A Bonds shall cease to accrue upon declaration of acceleration. If a Credit Facility is then in effect, the Trustee shall immediately draw on the Credit Facility pursuant to the Indenture to pay the accelerated principal of and accrued interest on the Bonds to the extent the Credit Facility is available for such amounts.

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 shall have been obtained or entered, the Authority shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Series 2010A Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Series 2010A Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Series 2010A Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, and all obligations payable to the Credit Facility Provider have been paid and the Credit Facility has been reinstated in full, then, and in every such case the Trustee shall, on behalf of the Owners of all of the Series 2010A Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon. Anything to the contrary notwithstanding, the Trustee shall not waive, rescind or annul any Event of Default unless the Credit Facility Provider shall have confirmed in writing to the Trustee that the Credit Facility remains in full force and effect or the Trustee shall have received notice from the Credit Facility Provider that the Credit Facility has been reinstated for any Interest Rate Period for which the Credit Facility is required, and, for any Event of Default pursuant to the Indenture, the Trustee shall not waive, rescind or annul any Event of Default unless the Trustee shall have received notice from the Credit Facility Provider that the Credit Facility Provider's notice of an Event of Default (as defined in the Credit Facility) has been rescinded.

Application of Revenues and Other Funds After Default

If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Series 2010A Bonds and payment of reasonable fees, charges 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, provided, however, that payments under the Indenture shall in no case be paid from amounts drawn from the Credit Facility, from any remarketing proceeds or any other funds held for the payment of principal, interest or the Purchase Price of the Series 2010A Bonds;

(b) To the payment of the principal of and interest then due on the Series 2010A Bonds (upon presentation of the Series 2010A Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) and to payment of Credit Facility Provider Obligations in accordance with the provisions of the Indenture, in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and the payment to the Credit Facility Provider of amounts payable under the Credit Facility Provider Agreement relating to installments of interest on Series 2010A Bonds comprising, or interest on, Credit Facility Provider Reimbursement Obligations, and, if the amount available shall not be sufficient to pay in full all such amounts 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 Series 2010A Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of two hundred (200) basis points above the interest rate per annum on such overdue principal (or such other rate as may be applicable to Bank Bonds), and the repayment to the Credit Facility Provider of amounts payable under the Credit Facility Provider Agreement relating to the principal of any Series 2010A Bonds, and, if the amount available shall not be sufficient to pay in full all of the foregoing, 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.

(c) To the payment of any other amounts remaining owing the Credit Facility Provider, if any, under the Credit Facility Provider Agreement.

Trustee to Represent Series 2010A Bond Owners

Under the Indenture, the Trustee is irrevocably appointed (and the successive respective Owners of the Series 2010A Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the Series 2010A 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 Series 2010A Bonds or the Indenture and applicable provisions of any other 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 Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Series 2010A Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Series 2010A Bonds or the Indenture or any other law; and upon instituting such proceeding, the Trustee shall 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 Series 2010A Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Series 2010A Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Series 2010A Bonds, subject to the provisions of the Indenture.

Notwithstanding anything contained in the Indenture, the Trustee shall have no security interest in or mortgage on the Project, any property of the Authority or other assets or property thereof and no default shall result in the loss of the Project, any property of the Authority or other assets or property thereof.

Bond Owners' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Credit Facility Provider (or, if there shall not be a Credit Facility, then the Owners of a majority in aggregate principal amount of the Series 2010A Bonds then Outstanding), shall 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 thereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

Limitation on Bond Owners' Right to Sue

No Owner of any Series 2010A Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Purchase Contract or any other applicable law with respect to such Series 2010A Bonds, unless (a) such Owners shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than twenty five percent (25%) in aggregate principal amount of the Series 2010A Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers thereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Series 2010A Bonds then Outstanding; and (f) such suit, action or proceeding is instituted subject to the Indenture.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Series 2010A Bonds of any remedy thereunder or under law; it being understood and intended that no one or more Owners of Series 2010A Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners of Series 2010A Bonds, or to enforce any right under the Series 2010A Bonds, the Indenture, the Installment Purchase Contract or other applicable law with respect to the Series 2010A Bonds, except in the manner therein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority

Nothing in the Indenture or in the Series 2010A Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Series 2010A Bonds to the respective Owners of the Series 2010A Bonds at their respective dates of maturity, or upon call for redemption, as therein provided, but only out of the Revenues and other assets therein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Series 2010A Bonds.

Termination of Proceedings

In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason, the Trustee or the Bond Owners, then in every such case the Credit Facility Provider, the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Credit Facility Provider, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee, the Credit Facility Provider or to the Owners of the Series 2010A Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default

No delay or omission of the Trustee, the Credit Facility Provider, if any, or of any Owner of the Series 2010A Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee, the Credit Facility Provider, if any, or to the Owners of the Series 2010A Bonds may be exercised from time to time and as often as may be deemed expedient.

Remedial Proceedings

Anything to the contrary notwithstanding, the provisions of the Indenture are subject to the right of the Credit Facility Provider, if any to direct all remedial proceedings.

Discharge of Series 2010A Bonds and Indenture

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the owners of all Outstanding Bonds the interest and principal and redemption premiums, if any, evidenced and represented thereby at the times and in the manner provided in the Indenture and therein, and to the Credit Facility Provider all amounts remaining owing to the Credit Facility Provider all amounts remaining owing to the Credit Facility Provider, if any, under the Credit Facility Provider Agreement, and the Credit Facility shall have terminated, then all agreements and covenants of the Authority and the City to such Owners under the Indenture shall thereupon cease terminate and become void and shall be completely discharged and satisfied.

(b) Any Outstanding Bonds shall on their maturities or their redemption dates prior thereto be deemed to have been paid within the meaning of and with the effect described in subparagraph (a) above if there shall be on deposit with the Trustee money held in trust for the benefit of the Owners of such Series 2010A Bonds which is sufficient to pay the interest and principal and redemption premiums, if any, on such Series 2010A Bonds payable on their maturities or their redemption dates prior thereto.

(c) Any Outstanding Bonds shall prior to their maturities or their or redemption dates prior thereto be deemed to have been paid within the meaning of and with the effect described in subparagraph (a) if (1) in case any of such Series 2010A Bonds are to be redeemed on any date prior to their maturities, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with the provisions of the Indenture to the Owners of such Series 2010A Bonds of the redemption of such Series 2010A Bonds on such redemption dates, (2) there shall have been deposited with the Trustee an amount (consisting of Available Money during any time which there is a Credit Facility in effect and the Credit Facility Provider has not failed to honor a properly presented drawing on such Credit Facility) which shall be sufficient, or Federal Securities (purchased with Available Money during any time at which there is a Credit Facility in effect and the Credit Facility Provider has not failed to honor a properly presented drawing on such Credit Facility), the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant regarding such sufficiency), to pay when due the interest on such Series 2010A Bonds at the Maximum Rate if the Series 2010A Bonds are not in a Long Term Interest Period ending on the Maturity Date on and prior to the earlier of (i) their maturities, (ii) the next optional redemption date, or (iii) the next mandatory tender date thereof, as the case may be, and the principal and redemption premiums, if any, on such Series 2010A Bonds and (3) in the event such Series 2010A Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with the Indenture to the Owners of such Series 2010A Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Series 2010A Bonds are deemed to have been paid and stating their maturities or their redemption dates prior thereto upon which money is to be available for the payment of the interest and principal and redemption premiums, if any, on such Series 2010A Bonds.

(d) The Trustee shall, if so directed by the Authority pursuant to a Request of the Authority (i) prior to the maturity date of Series 2010A Bonds deemed to have been paid in accordance with the Indenture which are not to be redeemed prior to their maturity date or (ii) prior to the mailing of the notice of redemption referred to in clause (c) above with respect to any Series 2010A Bonds deemed to have been paid in accordance with the Indenture which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee with respect

to such Series 2010A Bonds and redeem or sell Federal Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Series 2010A Bonds and the Trustee shall immediately thereafter cancel all such Series 2010A Bonds so purchased; provided, however, that the moneys and Federal Securities remaining on deposit with the Trustee after the purchase and cancellation of such Series 2010A Bonds shall be sufficient to pay when due the interest on those Series 2010A Bonds on and prior to their maturities or their Redemption Dates prior thereto, as the case may be, and the principal and redemption premiums, if any, on such Series 2010A Bonds, with respect to which such moneys and Federal Securities are being held by the Trustee on or prior to the mandatory redemption dates or maturity date thereof; as the case may be. If, at any time (i) prior to the maturity date of Series 2010A Bonds deemed to have been paid in accordance with the Indenture which are not to be redeemed prior to their maturity date or (ii) prior to the mailing of the notice of redemption referred to in clause (c) with respect to any Series 2010A Bonds deemed to have been paid in accordance with the Indenture which are to be redeemed on any date prior to their maturity, the Authority shall purchase or otherwise acquire any such Series 2010A Bonds and deliver such Series 2010A Bonds to the Trustee prior to their maturity date or mandatory redemption dates, as the case may be, the Trustee shall immediately cancel all such Series 2010A Bonds so delivered; such delivery of Series 2010A Bonds to the Trustee shall be accompanied by directions from the Authority to the Trustee in the form of a Request of the Authority as to the manner in which such Series 2010A Bonds are to be applied against the obligation of the Trustee to pay or redeem Series 2010A Bonds deemed paid in accordance with the Indenture. The directions given by the Authority to the Trustee referred to in the preceding sentences shall also specify the portion, if any, of such Series 2010A Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to pay Series 2010A Bonds deemed paid in accordance with the Indenture upon their maturity date or dates and the portion, if any, of such Series 2010A Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to redeem Series 2010A Bonds deemed paid in accordance with the Indenture on any date or dates prior to their maturity.

In the event that on any date as a result of any purchases, acquisitions and cancellations of Series 2010A Bonds as provided in the Indenture the total amount of moneys and Federal Securities remaining on deposit with the Trustee under the Indenture is in excess of the total amount which would have been required to be deposited with the Trustee on such date with respect to the remaining Series 2010A Bonds in order to satisfy subclause (2) of subsection (c) above, the Trustee shall, if requested by the Authority pursuant to a Written Request of the Authority, pay the amount of such excess to the Authority free and clear of any trust, lien, pledge or assignment securing said Series 2010A Bonds or otherwise existing under this Indenture; provided, however, before any such excess is transferred to the Authority, the Authority and the Trustee shall have received a report of an Independent Certified Public Accountant to the effect that the amount of moneys and the principal of and interest when due on the Federal Securities remaining on deposit with the Trustee after such amount is transferred to the City shall be sufficient to pay when due the interest on such Series 2010A Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal and redemption premiums, if any, of such Series 2010A Bonds.

Except as otherwise provided in subsection (d) above, neither Federal Securities nor moneys deposited with the Trustee pursuant to the provisions of the Indenture described under this heading "Discharge of Series 2010A Bonds and Indenture" nor principal or interest payments on any such Federal Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or redemption price, if applicable, and interest on said Series 2010A Bonds; provided that any cash received from such principal or interest payments on such Federal Securities deposited with the Trustee, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the Authority as received by the Trustee, free and clear of any trust, lien or pledge

securing said Series 2010A Bonds or otherwise existing under the Indenture, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Federal Securities maturing at times and in amounts sufficient to pay when due the interest on the Series 2010A Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal and redemption premiums, if any, on the Series 2010A Bonds and interest earned from such reinvestment shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Series 2010A Bonds or otherwise existing under the Indenture.

(e) After the payment of all interest and principal and redemption premiums, if any, of all Outstanding Bonds as provided in subsections (a) or (b) above, and the payment of all fees and expenses of the Trustee, the Credit Facility Provider and the Trustee, upon receipt of a Written Request of the Authority, shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and the City and shall authenticate and deliver to the Authority and the City all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the Indenture, and the Trustee shall pay over or deliver to the City all money or investments held by it pursuant hereto which are not required for the payment of the interest and principal and redemption premiums, if any, evidenced and represented by such Series 2010A Bonds, which money and investments shall be used by the Authority for any lawful purpose.

Unclaimed Money

Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal or redemption premium, if any, on any Series 2010A Bonds which remains unclaimed for two (2) years after the date when the payments on such Series 2010A Bonds have become payable, if such money was held by the Trustee on such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal and redemption premiums, if any, on such Series 2010A Bonds have become payable, shall be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for the payment of the interest and principal and redemption premiums, if any, on such Series 2010A Bonds; provided, that before being required to make any such payment to the Authority, the Trustee shall, at the expense of the Authority, give notice by mail in accordance with the Indenture to Owners of Series 2010A Bonds with respect to which moneys remain unclaimed that such money remains unclaimed and that after a date named in such notice, which date shall not be less than sixty (60) days after the date of giving such notice, the balance of such money then unclaimed will be returned to the Authority.

Waiver of Personal Liability

No officer, director or employee of the City, the Authority or the Trustee shall be individually or personally liable for the payment of the interest or principal or redemption premiums, if any, on the Series 2010A Bonds, but nothing in the Indenture contained shall relieve any officer, director or employee of the Authority, the City or the Trustee from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Contract or the Indenture.

INSTALLMENT PURCHASE CONTRACT

General

Certain provisions of the Installment Purchase Contract are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Installment Purchase Contract.

Payment of the Installment Payments

The City shall, subject to any right of prepayment provided in the Installment Purchase Contract, pay the Authority the Installment Payments, without offset or deduction of any kind, by paying the principal components of the Installment Payments annually in the amounts and on October 1 in each of the years in accordance with the Installment Purchase Contract, together with the interest components of the Installment Payments, which interest components shall be paid at the times and in the amounts that (i) interest is payable on the Series 2010A Bonds as provided in the Indenture and (ii) interest is payable on or with respect to Credit Facility Provider Reimbursement Obligations under the Credit Facility Provider Agreement (each such date when a principal component or interest component of an Installment Payment is due being called an "Installment Payment Date"), provided, that in the event the City fails to make any Installment Payment when due, the defaulted Installment Payment shall continue as an obligation of the City, and the City shall pay the same with interest thereon from the due date thereof at the rate of interest applicable thereto.

The obligation of the City to pay the Installment Payments from the Net System Revenues as provided in the Installment Purchase Contract is absolute and unconditional, and until such time as the Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made pursuant to Installment Purchase Contract), the City will not discontinue or suspend any Installment Payments required to be made by it, whether or not the Water System, 2010 Water Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to abatement because of any damage to, destruction or condemnation of the Water System or the 2010 Water Project, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Pledge of Net System Revenues; City Revenue Fund

All Net System Revenues are irrevocably pledged to the payment of the Parity Obligations, and the Net System Revenues shall not be used for any other purpose while any Installment Payments remain unpaid; provided, that out of the Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Contract. This pledge, together with the pledge created by all other Parity Obligations, shall constitute a first and exclusive lien on the Net System Revenues for the payment of the Parity Obligations in accordance with the terms of the Installment Purchase Contract.

All System Revenues shall be deposited as and when received in the City Revenue Fund, which fund is continued in the treasury of the City and which fund shall be maintained by the City, and all money in the City Revenue Fund shall be set aside by the City and applied to the payment of Operation and Maintenance Costs, as and when required to be paid.

The City covenants to cause all Net System Revenues to be allocated and applied as provided in the Installment Purchase Contract; provided, that pending the use by the City of the Net System Revenues for such purposes, such money may be invested by the City in Permitted Investments.

Allocation of Net System Revenues

All Net System Revenues shall be set aside by the City at the following times and deposited in the following account or fund in the following order of priority:

(a) Bond Payment Fund Deposits. On or before each Installment Payment Date, the City shall, from Net System Revenues, transfer to the Trustee (on a parity with any required transfers of Net System Revenues for the payment of all other Parity Obligations) for deposit in the Bond Payment Fund a sum equal to the amount of the interest components becoming due thereunder on such Installment Payment Date and a sum equal to the amount of the principal components, if any, becoming due thereunder on such Installment Payment Date;

(b) Reserve Account Deposits. On each date required by the Indenture, after making the transfers and deposits required by paragraph (1) for Installment Payments and payments on Parity Obligations currently due and payable, the City shall, from Net System Revenues, transfer to the Trustee (on a parity with any required transfers of Net System Revenues for the replenishment of all other reserve accounts for all Parity Obligations) for deposit in the Reserve Account Fund, a sum equal to the amount, if any, required by the terms of the Indenture, to be deposited in the Reserve Fund to the Reserve Requirement on such date; and

(c) Surplus Net System Revenues. On any date, provided that (a) all transfers and deposits required by paragraph (1) for Installment Payments and payments on Parity Obligations currently due and payable have been made and (b) all transfers required to be made on such date by paragraph (2) have been made, Net System Revenues may be used for any lawful purpose, including, but not limited to the payment of any obligations secured by Net System Revenues on a priority subordinate to the Parity Obligations or the payment of any Termination Payment;

provided, that no such transfers to and deposits in the Bond Payment Fund need be made if the amount available and contained therein (without regard to any amounts paid by a Credit Facility Provider) is at least equal to the interest component becoming due under the Installment Purchase Contract on such Installment Payment Date, plus the principal components, if any, becoming due under the Installment Purchase Contract on such Installment Payment Date and if the Indenture does not require a replenishment of the amount contained in the Reserve Fund; and provided further, that nothing in this section shall be construed to limit the City's ability to make other transfers and deposits at any time from Net System Revenues for the payment of debt service, reserve replenishment, credit enhancement reimbursement costs and Payment Agreement Payments to the extent required with respect to Parity Obligations.

Additional Obligations

(a) The City will not incur any obligations payable from Net System Revenues superior to the payment of the Installment Payments.

(b) Without regard to the provisions of the Installment Purchase Contract described in subparagraph (c) below, the City may at any time enter into an agreement or create an obligation or commitment which is a Credit Facility Provider Agreement or a Payment Agreement or will or may result

in a Credit Provider Reimbursement Obligation provided that the same is entered into or created in connection with a Parity Obligation that has been or will be issued or created in accordance with the Installment Purchase Contract.

(c) The City may at any time and from time to time issue or create other Parity Obligations, provided:

(1) There shall not have occurred and be continuing (i) an Event of Default under the terms of the Installment Purchase Contract or any Issuing Document or (ii) an Event of Default (as defined in any Credit Facility Provider Agreement) or (iii) an Event of Default or Termination Event (as defined in any Payment Agreement) under any Payment Agreement; and

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

(A) the Adjusted Net System Revenues for either the most recent Fiscal Year for which audited financial statements are available or any 12 consecutive calendar month period during the 18 consecutive calendar month period ending immediately prior to the incurring of such additional Parity Obligations were at least sufficient to satisfy the Coverage Requirement for each of the next five full Fiscal Years following the incurring of such additional Parity Obligations or each of the next three full Fiscal Years following the incurring of such additional Parity Obligations during which no interest is capitalized, whichever is later, including the Parity Debt Service during such Fiscal Years on such additional Parity Obligations; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the Adjusted Net System Revenues for such Fiscal Year or 12 calendar month period, as the case may be, to reflect:

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

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

(B) the estimated Adjusted Net System Revenues for each of the five full Fiscal Years next following the earlier of (i) the end of the period during which interest on such additional Parity Obligations is to be capitalized or, if no interest is capitalized, the Fiscal Year in which such additional Parity Obligations are incurred, or (ii) the date on which substantially all Water Projects financed with such additional Parity Obligations plus all Water Projects financed with all existing Parity Obligations are

expected to commence operations, will be at least sufficient to satisfy the Coverage Requirement for such period; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the foregoing estimated Adjusted Net System Revenues to reflect:

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

(ii) an allowance for Net System Revenues that are estimated to be derived from new customers of the Water System anticipated to be served by any additions or improvements to or extensions of the Water System reasonably expected to become available during such five year period in an amount equal to the additional Net System Revenues that are estimated to be derived from such customers.

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

The certificate or certificates described above in subparagraph (c)(2) shall not be required if the Parity Obligations being issued are for the purpose of refunding (x) then outstanding Parity Obligations, if at the time of the issuance of such refunding Parity Obligations a certificate of the City shall be delivered showing that Parity Debt Service in each Fiscal Year on all Parity Obligations outstanding after the issuance of the refunding Parity Obligations will not exceed 110% of Parity Debt Service in each corresponding Fiscal Year on all Parity Obligations outstanding prior to the issuance of such refunding Parity Obligations; or (y) then outstanding Balloon Obligations or Variable Interest Rate Obligations, but only to the extent that the principal amount of such Balloon Obligations or Variable Interest Rate Obligations has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such Balloon Obligations or Variable Interest Rate Obligations, as applicable.

(d) Without regard to the provisions of the Installment Purchase Contract described above, the City may issue or incur obligations secured by Net System Revenues subordinate in priority of payment and lien to the Parity Obligations and such obligations may be paid only in accordance with the provisions of the Installment Purchase Contract as long as (i) no Event of Default has occurred and is continuing (unless such Event of Default will not be continuing after the incurrence of such subordinate obligations), (ii) no Event of Default (as defined in any Credit Facility Provider Agreement) under any Credit Facility Provider Agreement has occurred and is continuing, and (iii) no Event of Default or Termination Event (as defined in any Payment Agreement) under any Payment Agreement has occurred and is continuing (unless such Event of Default or Termination Event will not be continuing after the incurrence of such subordinate obligations); provided the obligations under any Credit Facility Agreement may be paid notwithstanding the foregoing clauses(i) and (ii).

Compliance with, Amendment of and Assignment of Installment Purchase Contract

The City will punctually pay the Installment Payments in strict conformity with the terms of the Installment Purchase Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract required to be observed and performed by it, and will not terminate the Installment Purchase Contract for any cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Water System, the 2010 Water Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Contract required to be observed and performed by it, whether express or implied. The City will, so long as any Installment Payments remain unpaid, apply Net System Revenues as provided in the Installment Purchase Contract.

The City and the Authority shall not supplement, amend, modify or terminate any of the terms of the Installment Purchase Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee, which such consent shall be given only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the Series 2010A Bonds or result in any material impairment of the security of the Installment Purchase Contract given for the payment of, or result in a materially adverse effect on the ability of the city to pay the Installment Payments as and when due, or (b) the Trustee first obtains the written consent of the Credit Facility Provider, if any, and if none, the consent of a majority in aggregate principal amount of the Series 2010A Bonds then Outstanding to such supplement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination shall reduce the amount of Installment Payments to be made to the Authority or the Trustee by the City pursuant to the Installment Purchase Contract, or extend the time for making such Installment Payments, or permit the creation of any lien prior to the lien created by the Installment Purchase Contract on Net System Revenues without the written consent the Credit Facility Provider, if any, and if none, the written consent of all of the Owners of all Series 2010A Bonds then Outstanding.

Against Encumbrances

The City will not make any use of or encumber the Net System Revenues except as provided in the Installment Purchase Contract.

Against Sale or Other Disposition of Property

The City will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of Net System Revenues. The City will not enter into any agreement which impairs the operation of the Water System or any part thereof necessary to secure adequate Net System Revenues for the payment of the Parity Obligations or which would otherwise impair the rights of the City with respect to Net System Revenues or the operation of the Water System.

Against Competitive Facilities

The City will not, to the extent permitted by law, acquire, purchase, 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, purchase, maintain or operate within the City any water system competitive with the Water System.

Tax Covenants

The City will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that interest on the Series 2010A Bonds will not be included in the gross income of the holders of the Series 2010A Bonds for federal income tax purposes under the Code and will be exempt from State of California personal income taxes, and will take no action that would result in such interest being so included or not being so exempt. Without limiting the foregoing, the City and the Authority will at all times comply with the requirements of the Tax Certificate executed in connection with the delivery of the Series 2010A Bonds by the Trustee. The City's tax covenant shall survive any defeasance or discharge of the Installment Payments pursuant to the provisions of the Installment Purchase Contract or any acceleration of the Installment Payments pursuant to the Installment Purchase Contract.

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 and will operate the Water System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

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 Net System Revenues or any part thereof or on any funds in the hands of the City or which might impair the security of the Installment Payments.

Compliance with Contracts

The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be kept, observed and performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the City is a party thereto.

Insurance

The City will procure and maintain such insurance relating to the Water System which it shall deem advisable or necessary to protect its interests and the interests of the Authority and the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in the State in connection with municipal water systems comparable to the Water System; provided, that any 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 municipal water systems in the State comparable to the Water System and is, in the opinion of an accredited actuary, actuarially sound. All policies of insurance required to be maintained under the Installment Purchase Contract shall provide that the Authority and the Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Reports

The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System and the Net System Revenues and the Operation and Maintenance Costs relating thereto, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

The City will prepare annually within two hundred seventy (270) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2010) 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, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

Protection of Security and Rights of Authority

The City will preserve and protect the security of the Installment Purchase Contract and the rights of the Authority to the Installment Payments under the Installment Purchase Contract and will warrant and defend such rights against all claims and demands of all persons.

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 Net System Revenues when the same shall become due. The City will duly observe and comply with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Amount of Charges, Fees and Rates; Rate Stabilization Fund

The City will fix, prescribe and collect rates, fees and charges for the Water Service during each Fiscal Year which are estimated to yield Adjusted Net System Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Adjusted Net System from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements described in this subparagraph.

The City has previously established a fund denominated the Rate Stabilization Fund. From time to time the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City shall determine and the amount of available current System Revenues shall be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund and deposited in the City Revenue Fund, and any amounts so transferred within 270 days after the end of a Fiscal Year shall be deemed System Revenues for such Fiscal Year when so transferred. The City may also apply moneys on deposit in the Rate Stabilization Fund for any lawful purpose. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues in accordance with the terms of this subparagraph or used for any lawful purpose.

Eminent Domain and Insurance Proceeds

If all or any part of the Water System shall be taken by eminent domain proceedings, or if the City receives any insurance proceeds resulting from a casualty loss to the Water System, the net proceeds thereof, at the option of the City, shall be applied either to (a) the prepayment of Parity Obligations, or (b) to acquire and construct additions, betterments or improvements to the Water System to replace the condemned or destroyed portion of the Water System.

Continuing Disclosure

The City agrees to comply with and carry out all of the provisions of the continuing disclosure undertaking relating to the Series 2010A Bonds. Notwithstanding any other provision of the Installment Purchase Contract, failure of the City to comply with such undertaking shall not be considered an Event of Default under the Installment Purchase Contract or the Indenture; provided, that the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least twenty-five per cent (25%) in aggregate principal amount of Outstanding Bonds, shall) or 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 its continuing disclosure obligations.

Further Assurances

The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Contract and for the better assuring and confirming unto the Authority of the rights and benefits provided to it in the Installment Purchase Contract.

Events of Default

If one or more of the following Events of Default shall happen, that is to say –

(a) if default shall be made in the due and punctual payment of any Installment Payment when and as the same shall become due and payable;

(b) if default shall be made by the City in the performance of any of the other agreements or covenants contained in the Installment Purchase Contract required to be performed by it, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Authority or the Trustee; or

(c) if the City shall file 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 shall approve 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 shall assume custody or control of the City or of the whole or any substantial part of its property;

(d) if an event of default (as defined in any Parity Obligation or Issuing Document) shall have occurred and be continuing; or

(e) if an event of default (as defined in the Indenture) shall have occurred and be continuing;

then and in each and every such case during the continuance of such Event of Default the Authority may, by notice in writing to the City, declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Installment Purchase Contract to the contrary notwithstanding; provided, that if at any time after the entire principal amount of the unpaid Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the money thereby due shall have been obtained or

entered the City shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Installment Payments due prior to such declaration and the accrued interest thereon, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor then and in every case the Authority, by written notice to the City, may rescind and annul such declaration and its consequences, except that no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Distribution of Assets

Upon the date of the declaration of an Event of Default by the Authority, all Net System Revenues shall be applied in the following order –

(1) First, to the payment of the costs and expenses of the Trustee (as assignee of the Authority), if any, in carrying out the provisions of this section, including reasonable compensation to its agents, accountants and counsel and including any expenses of the Authority in indemnifying the Trustee;

(2) Second, to the payment of interest and regularly scheduled payments then due on Parity Obligations (except Termination Payments), and, if the amount available shall not be sufficient to pay in full all such interest and regularly scheduled payments then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference;

(3) Third, to the payment of the unpaid principal amount of the Parity Obligations then due and payable with interest on the overdue principal and interest amounts of the unpaid Parity Obligations at the rate or rates of interest then applicable to such Parity Obligations if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Parity Obligations on any date, together with such interest, then to the payment thereof ratably, according to the principal amount due on such date, without any discrimination or preference;

(4) Fourth, to the required replenishment of any debt service reserves with respect to the Parity Obligations;

(5) Fifth, to the payment of any other amounts becoming due and payable with respect to Parity Obligations (but excluding Termination Payments); and

(6) Sixth, to the payment of the costs and expenses of the Authority, if any, in carrying out the provisions of this section, including reasonable compensation to its agents, accountants and counsel, that were not paid pursuant to clause (1) above;

(7) Seventh, to the payment of all other amounts due and payable by the City from Net System Revenues, including, but not limited to the payment of obligations secured by Net System Revenues on a priority subordinate to the Parity Obligations, and to the payment of any Termination Payments with respect to any Payment Agreements.

Other Remedies of the Authority

The Authority shall have the right –

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any councilmember, officer or employee thereof, and to compel the City or any such councilmember, officer or employee to perform and carry out its duties under agreements and covenants required to be performed by it or him or her contained in the Installment Purchase Contract;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or

(c) by suit in equity upon the happening of an Event of Default to require the City and its councilmembers, officers and employees to account as the trustee of an express trust.

Non-Waiver

Nothing in the Installment Purchase Contract shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments to the Authority at their respective due dates or upon prepayment as provided in the Installment Purchase Contract from the Net System Revenues, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Contract.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract, and no delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by applicable law or by the remedies provisions of the Installment Purchase Contract may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the City and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive

No remedy in the Installment Purchase Contract conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Purchase Contract or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by applicable law.

Discharge of Obligations

If the City shall pay or cause to be paid all the Installment Payments at the times and in the manner provided in the Installment Purchase Contract, the right, title and interest of the Authority in the Installment Purchase Contract and the obligations of the City under the Installment Purchase Contract

shall thereupon cease, terminate, become void and be completely discharged and satisfied, except as provided in the tax covenants of the Installment Purchase Contract.

Any unpaid principal component of the Installment Payments shall on its scheduled payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect described in subsection (a) of this section if the City makes payment of such Installment Payments and the interest and prepayment premium, if applicable, thereon in the manner provided in the Installment Purchase Contract, and money for the purpose of such payment or prepayment is then held by the Trustee.

All or any portion of unpaid principal components of the Installment Payments shall, prior to their scheduled payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect described above (except that the City shall remain liable for the payment of such Installment Payments, but only out of the money or securities deposited with the Trustee or an escrow agent) if and to the same extent that a corresponding principal amount of Series 2010A Bonds is defeased pursuant to the Indenture.

Liability of City Limited to Net System Revenues

Notwithstanding anything contained in the Installment Purchase Contract, the City shall not be required to advance any money derived from any source of income other than the Net System Revenues and the other funds provided in the Installment Purchase Contract for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Contract; provided, that the City may advance money for any such purpose so long as such money is derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the Installment Payments is a special obligation of the City and is payable solely from the Net System Revenues and the other funds as provided in the Installment Purchase Contract, and does not constitute a debt of the City or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction, and 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.

Assignment

The Installment Purchase Contract and any rights thereunder may be assigned by the Authority, as a whole or in part, without the necessity of obtaining the prior consent of the City. The assignment of the Installment Purchase Contract or rights thereunder to the Trustee is solely in its capacity as Trustee and the duties, powers and liabilities of the Trustee in acting under the Installment Purchase Contract shall be subject to the provisions of the Indenture.

Waiver of Personal Liability

No councilmember, officer or employee of the City shall be individually or personally liable for the payment of the Installment Payments, but nothing contained in the Installment Purchase Contract shall relieve any councilmember, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Contract.

Net Contract

The Installment Purchase Contract shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term thereof the Installment Payments and all other payments required thereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

(This Page Intentionally Left Blank)

APPENDIX D

FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Stockton (the “City”) in connection with the execution and delivery of \$55,000,000 principal amount of the Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project). The Series 2010A Bonds are being issued pursuant to an Indenture executed and entered into as of October 1, 2010 by and among the Stockton Public Financing Authority (the “Authority”), the City and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. The Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Series 2010A Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of the Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Certificates for federal income tax purposes.

“Dissemination Agent” shall mean any entity designated in writing by the City to perform the duties specified in Section 3(c) of the Disclosure Certificate and which has filed with the City a written acceptance of such designation.

“Fiscal Year” shall mean with respect to the City, the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve month or fifty-two week period thereafter selected by the City with notice of such selection of change in fiscal year to be provided as set forth herein.

“Listed Event” shall mean any of the events listed in Section 5(a) of the Disclosure Certificate.

“Official Statement” shall mean the Official Statement for the Series 2010A Bonds, dated October 20, 2010.

“Owners” shall mean either the registered owners of the Series 2010A Bonds, or, if the Series 2010A Bonds are registered in the name of Depository Trust Company or another recognized depository, any applicable participant in its depository system.

“Participating Underwriter” shall mean Citigroup Global Markets Inc., as the original underwriter of the Series 2010A Bonds required to comply with the Rule in connection with offering of the Series 2010A Bonds.

“Repository” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule.

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

“State” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or upon written direction shall cause the Dissemination Agent to, not later than nine (9) months after the end of the City’s fiscal year (which currently is June 30), commencing with the report for the 2008-09 Fiscal Year, provide to each Repository and the Participating Underwriter, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished pursuant to this Disclosure Certificate. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the City and shall have no obligation to review such Annual Report. If the City is unable to provide to the Repository an Annual Report by the date required in subsection (a), the City shall send a notice to the Repository, in substantially the form attached as Exhibit A to the Disclosure Certificate.

(c) If the Dissemination Agent is other than the City, the Dissemination Agent shall:

(i) determine each year, prior to the date for providing the Annual Report, the name and address of the Repository;

(ii) file the Annual Report with the Repository by the date required therefor by Section 3(a) and file any notice of a listed Event, if requested by the City, as soon as practicable following receipt from the City of such notice; and

(iii) if the Dissemination Agent is other than the City, the Dissemination agent shall file a report with the City certifying that the Annual Report has been provided pursuant to the Disclosure Certificate, stating the date it was provided and listing the Repository to which it was provided.

SECTION 4. Content of Annual Reports. Each Annual Report shall contain or incorporate by reference the following:

(a) The Statement of Net Assets, the Statement of Revenues, Expenditures and Changes in Fund Net Assets and the Statement of Cash Flows for the Water System for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If such financial reports are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

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 filed with the Repository or the Securities and Exchange Commission; *provided*, that if the documents included by reference is a final official statement, it must be available from the Repository; and *provided further*, that the City shall clearly identify each such other document so included by reference.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the Water System for preceding Fiscal Year, substantially similar to that provided in the tables and charts in the Official Statement, as follows:

(i) A maturity schedule for the outstanding Series 2010A Bonds, and a listing of Bonds redeemed prior to maturity during the prior Fiscal Year.

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

- (A) total deposits in the Revenue Fund for the prior Fiscal Year (with a statement of the debt service requirement discharged by the Revenue Fund in the prior Fiscal Year);
- (B) the Reserve Account (with a statement of the current Reserve Requirement and the name of the guaranteed investment contract provider, if any).

(iii) The information presented in the following tables:

- (A) Table 4--"Customer Base by Type of Account and Number of Connections;"
- (B) Table 5--"Ten Largest Accounts by Annual Consumption;"
- (C) Table 6--"Ten Largest Accounts by Revenue;"
- (D) Table 13--"Historical and Projected Connection Fee Revenues;"
- (E) Table 15--"Current and Adopted Rates;" and
- (F) Table 19--"Uncollectible Charges for Services."

(iv) Current adopted budget for the Water System; and

(v) Debt service schedules for Parity Debt and Additional Senior Debt, if any.

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 and/or related public entities, which have been submitted to each of the Repository. If the document included by reference is a final official statement, it must be available from the Repository. The City shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2010A Bonds, if material:

- (i) principal and interest payment delinquencies.
- (ii) non-payment related defaults.
- (iii) modifications to rights of Owners of the Series 2010A Bonds.
- (iv) optional, contingent or unscheduled calls of the Series 2010A Bonds.
- (v) defeasances.
- (vi) rating changes.
- (vii) adverse tax opinions or events adversely affecting the tax-exempt status of the Series 2010A Bonds.
- (viii) unscheduled draws on the Reserve Account reflecting financial difficulties.
- (ix) unscheduled draws on the credit enhancements reflecting financial difficulties.
- (x) substitution of the credit or liquidity providers or their failure to perform.
- (xi) release, substitution or sale of property securing repayment of the Series 2010A Bonds.
- (xii) initiation of bankruptcy proceedings by the City.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws. The Dissemination Agent shall have no responsibility for such determination and shall be entitled to conclusively rely on the determination made by the City.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (a)(v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Certificates pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The City's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2010A Bonds. If such termination occurs prior to the final maturity of the Series 2010A Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent.

(a) The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate, unless the City is serving as the Dissemination Agent, as provided herein. The initial Dissemination Agent shall be the City. If at any time there is no designated Dissemination Agent appointed by the City, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of Dissemination Agent hereunder, the City shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The Dissemination Agent may resign its duties hereunder at any time upon written notice to the City.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent (unless the City is the Dissemination Agent) shall have no duty or obligation to review any information provided to it by the City hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, holders or beneficial owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the City or an opinion of nationally recognized bond counsel retained by the City.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the City may amend the Disclosure Certificate, and any provision of the Disclosure Certificate, may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the

original issuance of the Series 2010A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Series 2010A Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Series 2010A Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in the Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Certificate, the City shall have no obligation under the Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of the Disclosure Certificate, the Trustee may, or upon receipt of the written direction of the Participating Underwriter or any Holder or Beneficial Owner of at least 25% of the aggregate amount of Outstanding Bonds, shall, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Disclosure Certificate in the event of any failure of the City to comply with the Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2010A Bonds.

SECTION 12. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Series 2010A Bonds, and shall create no rights in any other person or entity.

Date: October 21, 2010

CITY OF STOCKTON

By: _____
Interim Chief Financial Officer

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Stockton Public Financing Authority

Name of Bond Issue: Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project)

Date of Issuance: October 21, 2010

NOTICE IS HEREBY GIVEN that the City of Stockton (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.15 of the Installment Purchase Contract dated as of October 1, 2010 by and between the City of Stockton and the Stockton Public Financing Authority for the benefit of the Owners and Beneficial Owners of the above-referenced bonds. The City anticipates that the Annual Report will be filed by _____.

Dated:

CITY OF STOCKTON

By: _____
Its: _____

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2010A Bonds, payment of principal, redemption premium, if any, and interest with respect to the Series 2010A Bonds to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2010A Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the Authority of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The Authority, the Trustee and the Underwriters understand that the current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and that the current "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2010A Bonds. The Series 2010A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each Series of the Series 2010A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Series 2010A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010A Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2010A Bonds, except in the event that use of the book-entry system for the Series 2010A Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2010A 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 Series 2010A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2010A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the Series 2010A Bonds may wish to ascertain that the nominee holding the Series 2010A 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 Series 2010A Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Series 2010A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority 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 Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the Series 2010A Bonds to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2010A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The foregoing information concerning DTC concerning and DTC’s book-entry system has been provided by DTC, and neither the Authority nor the Trustee take any responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Authority nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2010A Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

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

The Authority and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Series 2010A Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2010A Bonds or an error or delay relating thereto.

(This Page Intentionally Left Blank)

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

October 21, 2010

Stockton Public Financing Authority
Stockton, California

Stockton Public Financing Authority
Variable Rate Demand Water Revenue Bonds,
Series 2010A (Delta Water Supply Project)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Stockton Public Financing Authority (the “Authority”) in connection with the issuance of \$55,000,000 aggregate principal amount of Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “Bonds”), issued pursuant to an Indenture, dated as of October 1, 2010 (the “Indenture”), between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In such connection, we have reviewed the Indenture; the Installment Purchase Contract, dated as of October 1, 2010 (the “Installment Purchase Contract”), between the Authority and the City of Stockton (the “City”); the Tax Certificate and Agreement, dated the date hereof (the “Tax Certificate”), between the Authority and the City; opinions of counsel to the Authority, the Trustee and the City; certificates of the Authority, the Trustee, the City and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Installment Purchase Contract and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure

that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Installment Purchase Contract and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint exercise of powers agencies and cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the Installment Purchase Contract or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated October 20, 2010, or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.
3. The Installment Purchase Contract has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority and the City, respectively.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G

PROPOSED FORM OF LETTER OF CREDIT

October 21, 2010

**U.S. \$55,958,357

No. S315478M

Wells Fargo Bank National Association,
as trustee and tender agent (the “*Trustee*” or
the “*Tender Agent*,” as applicable)
MAC# A0119-181
333 Market Street, 18th Floor
San Francisco, California 94105

Attention: Corporate Trust Services

Ladies and Gentlemen:

We hereby establish in your favor as Trustee and Tender Agent under the Indenture dated as of October 1, 2010 (the “*Indenture*”) by and between the Stockton Public Financing Authority (the “*Authority*”) and the Trustee for the benefit of the holders of the Bonds (as hereinafter defined), our irrevocable transferable Letter of Credit No. S315478M for the account of the City of Stockton (the “*City*”), whereby we hereby irrevocably authorize you to draw on us from time to time, from and after the date hereof to and including the earliest to occur of our close of business on: (i) October 18, 2013 (as extended from time to time, the “*Stated Expiration Date*”), (ii) the earlier of (A) the date which is five (5) Business Days following the Conversion Date, as such date is specified in a certificate in the form of Annex A hereto (the “*Conversion Date*”) hereto or (B) the date on which the Bank honors a drawing under the Letter of Credit on or prior to the date specified for termination as set forth in a certificate in the form of Annex A hereto, (iii) the date of receipt from you of a certificate in the form set forth as Annex B hereto, (iv) the date on which an Acceleration Drawing or Stated Maturity Drawing is honored by us, and (v) the date which is fifteen (15) days following receipt by you of a written notice from us in the form of Annex L (“*Event of Default*”), (the earliest of the foregoing dates herein referred to as the “*Termination Date*”), a maximum aggregate amount not exceeding \$55,958,357 (the “*Original Stated Amount*”) to pay principal of, premium, if any, and accrued interest on, or the purchase price of, the \$55,000,000 aggregate principal amount of the Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project), in accordance with the terms hereof (said \$55,958,357 having been calculated to be equal to (A) \$55,000,000, the original principal amount of the Bonds, plus (B) \$958,357 which is at least 53 days’ accrued interest on said principal amount of the Bonds at the rate of 12% per annum (the “*Cap Interest Rate*”) and assuming a year of 365 days. This credit is available to you against presentation of the following documents (the “*Payment Documents*”) presented to Union Bank (the “*Bank*”) as described below:

A certificate (with all blanks appropriately completed) (i) in the form attached as Annex C hereto (an “*Interest Drawing*”), (ii) in the form attached as Annex D hereto (a “*Redemption Drawing*”), (iii) in the form attached as Annex E hereto (a “*Liquidity Drawing*”); (iv) in the form

attached as Annex F hereto (an “*Acceleration Drawing*”), or (v) in the form attached as Annex G hereto to pay the principal amount of Bonds maturing on _____, 20__ (a “*Stated Maturity Drawing*”), each certificate to state therein that it is given by your duly authorized representative and dated the date such certificate is presented hereunder.

All drawings shall be made by presentation of each Payment Document at Union Bank, N.A., at telecopier number (323) 720-2773, Attention: Standby Letter of Credit Section, without further need of documentation, including the original of this Letter of Credit, it being understood that each Payment Document so submitted is to be the sole operative instrument of drawing. You shall use your best efforts to give telephonic notice of a drawing to the Bank at (323) 720-7957 on the Business Day preceding the day of such drawing (but such notice shall not be a condition to drawing hereunder and you shall have no liability for not doing so).

We agree to honor and pay the amount of any Interest, Redemption, Liquidity, Acceleration or Stated Maturity Drawing if presented in compliance with all of the terms of this Letter of Credit. If any such drawing, other than a Liquidity Drawing, is presented prior to 3:00 P.M., New York time, on a Business Day, payment shall be made in immediately available funds, by 1:00 P.M., New York time, on the following Business Day. If any such Drawing, other than a Liquidity Drawing, is presented at or after 3:00 P.M., New York time, on a Business Day, payment shall be made in immediately available funds, by 1:00 P.M. New York time, on the second following Business Day. If a Liquidity Drawing is presented prior to 12:00 Noon, New York time, on a Business Day, payment shall be made in immediately available funds, by 2:45 P.M., New York time, on the same Business Day. If a Liquidity Drawing is presented at or after 12:00 Noon, New York time, on any Business Day, payment shall be made in immediately available funds, by 2:45 P.M., New York time, on the following Business Day. Payments made hereunder shall be made by wire transfer to you or by deposit into your account with us in accordance with the instructions specified by the Trustee in the drawing certificate relating to a particular Drawing hereunder. “*Business Day*” means any day which is not (i) a Saturday, Sunday or (ii) a day on which banks located in the city in which drawings under the Letter of Credit are to be honored is located (initially, Monterey Park, California), are authorized or required to remain closed or (iii) a day on which The New York Stock Exchange is closed.

The Available Amount (as hereinafter defined) of this Letter of Credit will be reduced automatically by the amount of any drawing hereunder; *provided, however*, that the amount of any Interest Drawing hereunder, less the amount of the reduction in the Available Amount attributable to interest as specified in a certificate in the form of Annex D or Annex E hereto, shall be automatically reinstated effective at 9:00 A.M., New York time, five (5) calendar days from the date such drawing is honored by us unless you have received notice from us by 5:00 P.M., New York time, on the fourth (4th) calendar day after such date that the Bank has not been reimbursed in full for any such drawing or any other Event of Default has occurred and as a consequence thereof the Letter of Credit will not be so reinstated and we shall direct the Trustee to accelerate the Bonds or cause a mandatory tender of the Bonds pursuant to a certificate in the form of Annex L hereto. After payment by the Bank of a Liquidity Drawing, the obligation of the Bank to honor drawings under this Letter of Credit will be automatically reduced by an amount equal to said drawing. In addition, prior to the Conversion Date, in the event of the remarketing of the Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing, the Bank’s obligations to honor drawings hereunder will be automatically reinstated in the

amount stated on a certificate in the form of Annex K concurrently upon receipt by the Bank of such Annex K, and receipt by the Bank or the Trustee on behalf of the Bank of the amount equal to the amount stated on such Annex K.

Upon our honoring a certificate of the Trustee in the form of Annex D, Annex F or Annex G hereto, the Letter of Credit will automatically and permanently reduce the amount available to be drawn hereunder by the amount specified in such certificate.

The “*Available Amount*” shall mean the Original Stated Amount (i) less the amount of all prior reductions pursuant to Interest Drawings, Redemption Drawings, or Liquidity Drawings, (ii) less the amount of any reduction thereof pursuant to a reduction certificate in the form of Annex H hereto, (iii) plus the amount of all reinstatements as above provided.

Prior to the Termination Date, we may extend the Stated Expiration Date from time to time at the request of the City by delivering to you an amendment to this Letter of Credit in the form of Annex J hereto designating the date to which the Stated Expiration Date is being extended, and thereafter all references in this Letter of Credit to the Stated Expiration Date shall be deemed to be references to the date designated as such in such notice. Any date to which the Stated Expiration Date has been extended as herein provided may be extended in a like manner.

Upon the Termination Date this Letter of Credit shall automatically terminate.

This Letter of Credit is transferable in whole only to your successor as Trustee. Any such transfer (including any successive transfer) shall be effected by the presentation to us of this Letter of Credit accompanied by a request in the form of Annex I, attached hereto. Upon presentation and payment by the City of \$2,000 representing transfer fees, we shall forthwith effect a transfer of this Letter of Credit to your designated transferee. Transfers to designated foreign nationals specially designated nationals are not permitted as being contrary to the U.S. Treasury Department or Foreign Assets Control Regulations. Upon our endorsement of such transfer, the transferee instead of the transferor shall, without necessity of further action, be entitled to all the benefits of and rights under this Letter of Credit in the transferor’s place.

Other than the provisions for communication by facsimile copy, communications with respect to this Letter of Credit shall be addressed to us at Union Bank, N.A., 1980 Saturn Street, MC V02-906, Monterey Park, California 91755 Attn: Standby Letter of Credit, specifically referring to the number of this Letter of Credit Section.

To the extent not inconsistent with the express terms hereof, this Letter of Credit is subject to the terms of the International Standby Practices 1998, International Chamber of Commerce-Publication No. 590 (“*ISP98*”). As to matters not governed by the *ISP98*, this Letter of Credit shall be governed by and construed in accordance with Article 5 of the Uniform Commercial Code of the State of California.

All payments made by us hereunder shall be made from our funds and not with the funds of any other person.

This Letter of Credit sets forth in full the terms of our undertaking, and such undertaking shall not in any way be modified or amended by reference to any other document whatsoever.

UNION BANK, N.A.

By _____
Name _____
Title _____

**ANNEX A
TO
UNION BANK, N.A.
LETTER OF CREDIT**

NO. S315478M

NOTICE OF CONVERSION DATE

[Date]

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the "*Letter of Credit*"), which has been established by you for the account of City of Stockton in favor of the Trustee.

The undersigned hereby certifies and confirms that on [insert date] the interest rate on the Bonds has been converted to a rate other than the Daily Interest Rate or the Weekly Interest Rate, and, accordingly, said Letter of Credit shall terminate on _____, 20__, which is 5 Business Days after such Conversion Date in accordance with its terms.

All defined terms used herein which are not otherwise defined herein shall have the same meaning as in the Letter of Credit.

As Trustee

By _____
[Title of Authorized
Representative]

**ANNEX B
TO
UNION BANK, N.A.
LETTER OF CREDIT**

No. S315478M

NOTICE OF TERMINATION

[Date]

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the "*Letter of Credit*"), which has been established by you for the account of the City of Stockton in favor of the Trustee.

The undersigned hereby certifies and confirms that **[(i) no Bonds (as defined in the Letter of Credit) remain Outstanding within the meaning of the Indenture, (ii) all Drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored or (iii) an Alternate Credit Facility (as defined in the Indenture) has been issued to replace the Letter of Credit pursuant to the Indenture]** and, accordingly, the Letter of Credit shall be terminated in accordance with its terms.

All defined terms used herein which are not otherwise defined shall have the same meaning as in the Letter of Credit.

as Trustee

By _____
[Title of Authorized Representative]

**ANNEX C
TO
UNION BANK, N.A.
LETTER OF CREDIT**

No. S315478M

INTEREST DRAWING CERTIFICATE

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of _____ (the “Beneficiary”), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the “Letter of Credit”), issued by Union Bank, N.A. (the “Bank”) in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. The Beneficiary is entitled to make this Drawing in the amount of \$_____ under the Letter of Credit pursuant to the Indenture with respect to the payment of interest due on all Bonds Outstanding on the Interest Payment Date (as defined in the Indenture) occurring on [insert applicable date], other than (i) Bonds bearing interest at a rate other than the Daily Interest Rate or the Weekly Interest Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the City.

3. The amount of the drawing is equal to the amount required to be drawn by the Trustee pursuant to Section 2.17(a) of the Indenture.

4. The amount of the drawing made by this Certificate was computed in compliance with the terms of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

5. Payment by the Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, 20__.

as Trustee

By _____

[Title of Authorized Representative]

ANNEX D
TO
UNION BANK, N.A.
LETTER OF CREDIT

No. S315478M

REDEMPTION DRAWING AND REDUCTION CERTIFICATE

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of _____ (the "*Beneficiary*"), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the "*Letter of Credit*"), issued by Union Bank, N.A. (the "*Bank*") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of \$ _____ under the Letter of Credit pursuant to Section **[4.01(a)] [4.01(b)]** of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds to be redeemed by the Authority (as defined in the Letter of Credit) pursuant to Section **[4.01(a)] [4.01(b)]** of the Indenture on [insert applicable date] (the "*Redemption Date*") other than (i) Bonds bearing interest at a rate other than the Daily Interest Rate or the Weekly Interest Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the City (collectively, "*Ineligible Bonds*"), plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Indenture) to the Redemption Date, provided that in the event the Redemption Date coincides with an Interest Payment Date this drawing does not include any accrued interest on such Bonds.

(b) Of the amount stated in paragraph 2 above:

(i) \$ _____ is demanded in respect of the principal amount of the Bonds referred to in subparagraph (a) above; and

(ii) \$ _____ is demanded in respect of accrued interest on such Bonds.

4. Payment by the Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

5. The amount of the drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

6. Upon payment of the amount drawn hereunder, the Bank is hereby directed to permanently reduce the Available Amount by \$(insert amount of reduction) and the Available Amount shall thereupon equal \$(insert new Available Amount). The Available Amount has been reduced by an amount equal to the principal of Bonds paid with this drawing and an amount equal to 53 days' interest thereon at a rate of interest equal to 12% per annum.

7. Of the amount of the reduction stated in paragraph 6 above:

(i) \$_____ is attributable to the principal amount of Bonds redeemed or purchased in lieu of redemption; and

(ii) \$_____ is attributable to interest on such Bonds (*i.e.*, 53 days' interest thereon at a rate of interest equal to 12% per annum).

8. The amount of the reduction in the Available Amount has been computed in accordance with the provisions of the Letter of Credit.

9. Following the reduction, the Available Amount shall be at least equal to the aggregate principal amount of the Bonds Outstanding (to the extent such Bonds are not Ineligible Bonds), plus 53 days' interest thereon at a rate of interest equal to 12% per annum.

10. In the case of a redemption pursuant to Section 4.01(c) of the Indenture, the Trustee, prior to giving notice of redemption to the owners of the Bonds, received written evidence from the Bank that the Bank has consented to such redemption.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____,
_____.

as Trustee

By _____
[Title of Authorized Representative]

ANNEX E
TO
UNION BANK, N.A.
LETTER OF CREDIT

No. S315478M

LIQUIDITY DRAWING CERTIFICATE

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of _____ (the “Beneficiary”) hereby certifies as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the “Letter of Credit”), issued by Union Bank, N.A. (the “Bank”) in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Tender Agent under the Indenture.

2. The Beneficiary is entitled to make this drawing under the Letter of Credit in the amount of \$_____ with respect to the payment of the purchase price of Bonds tendered for purchase in accordance with Section [2.16(a)] [2.16(b)] [[2.16(d)] [2.16(e)] of the Indenture and to be purchased on [insert applicable date] (the “Purchase Date”) which Bonds have not been remarketed as provided in the Indenture or the purchase price of which has not been received by the Trustee (as defined in the Letter of Credit) by 11:30 A.M., New York time, on said Purchase Date.

3. (a) The amount of the drawing is equal to (i) the principal amount of Bonds to be purchased pursuant to the Indenture on the Purchase Date other than (i) Bonds bearing interest at a rate other than the Daily Interest Rate or the Weekly Interest Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the City, plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Indenture) (or if none, the date of issuance of the Bonds) to the Purchase Date, provided that in the event the Purchase Date coincides with an Interest Payment Date this drawing does not include any accrued interest on such Bonds.

(b) Of the amount stated in paragraph (2) above:

(i) \$_____ is demanded in respect of the principal portion of the purchase price of the Bonds referred to in subparagraph (2) above; and

(ii) \$ _____ is demanded in respect of payment of the interest portion of the purchase price of such Bonds.

4. The Bonds to be purchased bear interest at the **[Daily Interest Rate] [Weekly Interest Rate]**. In accordance with the Indenture, if this Certificate is (i) presented to the Bank prior to 12:00 Noon, New York time, on a Business Day, payment shall be made in immediately available funds, by 2:45 P.M., New York time, on the same Business Day and (ii) presented to the Bank at or after 12:00 Noon, New York time, on a Business Day, payment shall be made in immediately available funds, by 2:45 P.M., New York time, on the following Business Day.

5. The amount of the drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

6. Upon payment of the amount drawn hereunder, the Bank is hereby directed to reduce the Available Amount of the Letter of Credit by \$**[insert amount of reduction]** and the Available Amount shall, after giving effect to such reduction, equal \$**[insert new Available Amount]**.

7. Of the Amount of reduction stated in paragraph 5 above:

(i) \$ _____ is attributable to the principal amount of Bonds tendered; and

(ii) \$ _____ is attributable to interest on such Bonds (*i.e.*, 53 days' interest at a rate of interest equal to 12% per annum).

8. The Beneficiary will register or cause to be registered in the name of the Bank (or the City at the written direction of the Bank), upon payment of the amount drawn hereunder, Bonds in the principal amount of the Bonds being purchased with the amounts drawn hereunder and will deliver such Bonds to the Trustee in accordance with the Indenture.

9. Payment by the Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

as Trustee

By _____
[Title of Authorized Representative]

**ANNEX F
TO
UNION BANK, N.A.
LETTER OF CREDIT**

No. S315478M

ACCELERATION DRAWING CERTIFICATE

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of _____ (the "*Beneficiary*"), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the "*Letter of Credit*"), issued by Union Bank, N.A. (the "*Bank*") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee under the Indenture.

2. An Event of Default has occurred under subsection [insert subsection] of Section 7.01 of the Indenture and the Trustee has declared the principal of and accrued interest on all Bonds then outstanding immediately due and payable. The Beneficiary is entitled to make this drawing in the amount of \$ _____ under the Letter of Credit in order to pay the principal of and interest accrued on the Bonds due to an acceleration thereof in accordance with Section 7.02 of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds Outstanding on [insert date of acceleration] (the "*Acceleration Date*") other than (i) Bonds bearing interest at a rate other than the Daily Interest Rate or the Weekly Interest Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the City, plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Indenture) to the Acceleration Date.

(b) Of the amount stated in paragraph 2 above:

(i) \$ _____ is demanded in respect of the principal portion of the Bonds referred to in subparagraph (a) above; and

(ii) \$ _____ is demanded in respect of accrued interest on such Bonds.

4. The amount of this drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

5. Payment by the Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, 20__.

as Trustee

By _____
[Title of Authorized Representative]

**ANNEX G
TO
UNION BANK, N.A.
LETTER OF CREDIT**

No. S315478M

STATED MATURITY DRAWING CERTIFICATE

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of _____ (the "*Beneficiary*"), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the "*Letter of Credit*"), issued by Union Bank, N.A. (the "*Bank*") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of \$ _____ under the Letter of Credit pursuant to the Indenture.

3. (a) The amount of this drawing is equal to the principal amount of and interest on the Bonds Outstanding on _____, the maturity date thereof as specified in Section 2.03(a) of the Indenture, other than (i) Bonds bearing interest at a rate other than the Daily Interest Rate or the Weekly Interest Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the City.

(b) Of the amount stated in paragraph (2) above:

(i) \$ _____ is demanded in respect of the principal portion of the Bonds referred to in subparagraph (2) above; and

(ii) \$ _____ is demanded in respect of payment of the interest portion of such Bonds.

4. The amount of this Drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

5. Payment by the Bank pursuant to this drawing shall be made to _____,
ABA Number _____, Account Number _____, Attention:
_____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____,
_____.

as Trustee

By _____
[Title of Authorized Representative]

ANNEX H
TO
UNION BANK, N.A.
LETTER OF CREDIT

No. S315478M

REDUCTION CERTIFICATE

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Ladies and Gentlemen:

The undersigned hereby certifies with respect to (i) that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the "*Letter of Credit*"), issued by Union Bank, N.A. (the "*Bank*") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee under the Indenture.
2. Upon receipt by the Bank of this Certificate, the Available Amount (as defined in the Letter of Credit) shall be reduced by \$_____ and the Available Amount shall thereupon equal \$_____. \$_____ of the new Available Amount is attributable to interest and \$_____ of the new Available Amount is attributable to principal.
3. The amount of the reduction in the Available Amount has been computed in accordance with the provisions of the Letter of Credit.
4. Following the reduction, the Available Amount shall be at least equal to the aggregate principal amount of the Bonds Outstanding (other than (i) Bonds bearing interest at a rate other than the Daily Interest Rate or the Weekly Interest Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the City) plus \$_____ which is at least 53 days' accrued interest on said principal amount of the Bonds at the rate of 12% per annum and assuming a year of 365 days.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

as Trustee

By _____
[Title of Authorized Representative]

**ANNEX I
TO
UNION BANK, N.A.
LETTER OF CREDIT**

No. S315478M

TRANSFER CERTIFICATE

Date:

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Re: Irrevocable Transferable Letter of Credit
No. S315478M dated October 21, 2010

We, the undersigned "Transferor", hereby irrevocably transfer all of our rights to draw under the above referenced Letter of Credit ("Credit") in its entirety to:

NAME OF TRANSFEREE

(Print Name and complete address of the Transferee) "Transferee"

ADDRESS OF TRANSFEREE

CITY, STATE/COUNTRY ZIP

(the "Transferee") all rights of the Transferor with respect to the above-referenced Letter of Credit, including the right to draw under said Letter of Credit in the amount of the full unutilized balance thereof. Said Transferee has succeeded the Transferor as Trustee under that certain Indenture (as defined in the Letter of Credit) with respect to the Stockton Public Finance Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project).

By virtue of this transfer, the Transferee shall have the sole rights as beneficiary of said Letter of Credit, including sole rights relating to any past or future amendments thereof, whether increases or extensions or otherwise. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the Transferor.

By its signature below, the Transferee acknowledges that it has duly succeeded the Transferor as Trustee under the Indenture, and agrees to be bound by the terms of the Indenture as if it were the original Trustee thereunder.

The Letter of Credit is returned herewith, and we ask you to endorse the transfer on the reverse thereof and to forward it directly to the Transferee with your customary notice of transfer.

Very truly yours,

[Insert Name of Trustee],
as Trustee

By: _____
[Insert name and title of authorized officer]

SIGNATURE OF THE ABOVE OFFICER,
DULY AUTHORIZED TO ACT ON
BEHALF OF [insert name of
Trustee], AUTHENTICATED BY:

By: _____
Name: _____
Title: _____

Acknowledged by
[insert name of Transferee]
as Transferee and successor Trustee

By: _____
Name: _____
Title: _____

**ANNEX J
TO
UNION BANK, N.A.
LETTER OF CREDIT**

No. S315478M

NOTICE OF EXTENSION

[TRUSTEE]

Attention: _____

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the "*Letter of Credit*"), established by us in your favor as Beneficiary. We hereby notify you that, in accordance with the terms of the Letter of Credit, the Stated Expiration Date, as defined in the Letter of Credit, has been extended to _____.

This letter should be attached to the Letter of Credit and made a part thereof.

UNION BANK, N.A.

By _____
Name: _____
Title: _____

**ANNEX K
TO
UNION BANK, N.A.
LETTER OF CREDIT**

No. S315478M

NOTICE OF REMARKETING

Union Bank, N.A.
1980 Saturn Street, MC V02-906
Monterey Park, California 91755-7417

Attention: Standby Letters of Credit

Ladies and Gentlemen:

The undersigned, a duly authorized officer of _____ [insert name of Trustee] (the "*Trustee*"), hereby notifies Union Bank, N.A. (the "*Bank*"), with reference to that certain Irrevocable Transferable Letter of Credit No. S315478M dated October 21, 2010 (the "*Letter of Credit*"; terms defined therein and not otherwise defined herein shall have the meanings set forth in the Letter of Credit) issued by the Bank in favor of the Trustee as follows:

1. _____ is the Remarketing Agent under the Indenture for the holders of the Bonds.
2. The Trustee has been advised by the City or the Remarketing Agent that the amount of \$ _____ paid to the Bank today by the City or the Remarketing Agent on behalf of the City is a payment made to reimburse the Bank, pursuant to the Reimbursement Agreement, for amounts drawn under the Letter of Credit pursuant to a Liquidity Drawing.
3. Of the amount referred to in paragraph 2, \$ _____ represents the aggregate principal amount of Bank Bonds resold or to be resold on behalf of the City.
4. Of the amount referred to in paragraph 2, \$ _____ represents accrued and unpaid interest on such Bank Bonds.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of this _____
day of _____, _____.

[INSERT NAME OF TRUSTEE],
As Trustee

By _____
Name: _____
Title: _____

ANNEX L
TO
UNION BANK, N.A.
LETTER OF CREDIT

No. S315478M

NOTICE OF MANDATORY TENDER OR ACCELERATION

[TRUSTEE]

Attention: _____

Ladies and Gentlemen:

The undersigned, a duly authorized officer of Union Bank, N.A., hereby advises you, with reference to Irrevocable Transferable Letter of Credit No. S315478M, dated October 21, 2010 (the "*Letter of Credit*"; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in your favor, that:

[Insert one of the following paragraphs as appropriate]

[an "*Event of Default*" has occurred under Section 8.01 of the Reimbursement Agreement dated as of October 1, 2010, among the City, the Authority and the Bank and the Bank has elected to direct the Trustee to accelerate the Bonds or to cause a mandatory tender of the Bonds pursuant to the Indenture, whereby the Letter of Credit will terminate fifteen (15) days following the receipt by the Trustee of this Notice of Mandatory Tender or Acceleration.]

[The Bank has not been reimbursed for an Interest Drawing under the Letter of Credit or an "*Event of Default*" has occurred under Section 8.01 of the Reimbursement Agreement dated as of October 1, 2010, among the City, the Authority and the Bank and, as a result thereof, the amount of such Interest Drawing will not be reinstated and the Bank has elected to direct the Trustee to accelerate the Bonds or to cause a mandatory tender of the Bonds, pursuant to the Indenture, whereby the letter of credit will terminate fifteen (15) days following the receipt by the Trustee of this Notice of Mandatory Tender or Acceleration.]

UNION BANK, N.A.

By _____
Name: _____
Title: _____

