

NEW ISSUE - FULL BOOK-ENTRY

RATING:
S&P: "____"
 See "RATING."

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2018 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax, although, in the case of tax years beginning prior to January 1, 2019, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$ _____ *

CITY OF SANTA ROSA
REFUNDING WATER REVENUE BONDS, SERIES 2018

Dated: Date of Delivery

Due: September 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the "2018 Bonds") are being issued by the City of Santa Rosa (the "City") under an Indenture of Trust dated as of _____ 1, 2018 (the "Indenture"), by and between the City and Zions Bancorporation, National Association, as trustee. See "THE 2018 BONDS – Authority for Issuance."

Use of Proceeds. The 2018 Bonds are being issued to provide funds to (i) defease and redeem, in full, the City's Water Revenue Bonds, Series 2008, which were issued in the original aggregate principal amount of \$13,850,000 and are currently outstanding in the aggregate principal amount of \$11,035,000, and (ii) pay the costs of issuing the 2018 Bonds. See "FINANCING PLAN."

Security for the 2018 Bonds. The 2018 Bonds are special obligations of the City, payable solely from "Net Revenues" of the City's facilities for the transportation, treatment and distribution of water for the City's water customers (the "Water System"), and amounts on deposit in the funds and accounts established under the Indenture as and to the extent provided in the Indenture. "Net Revenues" are generally defined in the Indenture as the "Gross Revenues" received from the Water System, less the amount of "Maintenance and Operation Costs" of the Water System (as those terms are defined in the Indenture). See "SECURITY FOR THE 2018 BONDS."

No Reserve Fund. The City will not fund a debt service reserve fund for the 2018 Bonds. See "SECURITY FOR THE 2018 BONDS."

Future Bonds and State Loans. Under the Indenture, the City may incur additional obligations secured by Net Revenues on a parity basis with the 2018 Bonds, including additional bonds issued under the Indenture and loans from the State of California, provided that the conditions set forth in the Indenture are met. See "SECURITY FOR THE 2018 BONDS – Parity Bonds" and "RISK FACTORS."

Bond Terms; Book-Entry Only. The 2018 Bonds will bear interest at the rates shown on the inside cover, payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2019, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The 2018 Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the 2018 Bonds will not receive certificates representing their interests in the 2018 Bonds. Payments of the principal of, premium, if any, and interest on the 2018 Bonds will be made by to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2018 Bonds. See "THE 2018 BONDS – General Bond Terms."

Redemption. The 2018 Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity. See "THE 2018 BONDS – Redemption."

Limited Obligation. Neither the 2018 Bonds nor the obligation of the City to pay principal of or interest thereon constitutes a debt, obligation or liability of the City within the meaning of any Constitutional limitation on indebtedness, or a pledge of the full faith and credit of the City. The Bonds are secured solely by the pledge of Net Revenues of the Water System by the City and certain funds held under the Indenture. The 2018 Bonds are not secured by a pledge of the taxing power of the City. Neither the 2018 Bonds nor the obligation of the City to pay principal of or interest thereon constitutes a debt, obligation or liability whatsoever of the State of California or any of its other political subdivisions.

Summary Only. This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the 2018 Bonds. Investors should review the entire Official Statement before making any investment decision.

MATURITY SCHEDULE
 (see inside cover)

The 2018 Bonds are offered when, as and if issued, and accepted by the Underwriter, subject to approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will also be passed upon for the City by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by Quint & Thimmig LLP, Larkspur, California, as Underwriter's Counsel. It is anticipated that the 2018 Bonds, in book-entry only form, will be available through the facilities of DTC on or about _____, 2018.

STIFEL

The date of this Official Statement is: _____, 2018

* Preliminary; subject to change.

MATURITY SCHEDULE*

\$_____ Serial Bonds
(Base CUSIP†: 802651)

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP†
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\$_____ % Term Refunding Water Revenue Bonds Due September 1, 20___; Yield _____%
CUSIP†: 802651 _____

* Preliminary; subject to change.

† Copyright 2018, American Bankers Association. CUSIP data herein are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of CUSIP data.

CITY OF SANTA ROSA

CITY COUNCIL

Chris Coursey, *Mayor*
Chris Rogers, *Vice Mayor*
Julie Combs, *Council Member*
Ernesto Olivares, *Council Member*
John Sawyer, *Council Member*
Tom Schwedhelm, *Council Member*
Jack Tibbetts, *Council Member*

CITY OFFICIALS

Sean McGlynn, *City Manager*
Gloria Hurtado, *Deputy City Manager*
Chuck McBride, *Chief Financial Officer*
Bennett Horenstein, *Director of Santa Rosa Water*
Jason Nutt, *Director of Transportation and Public Works*
Sue Gallagher, *City Attorney*
Daisy Gomez, *City Clerk*

BOARD OF PUBLIC UTILITIES

Daniel Galvin III, *Chairman*
William Arnone, Jr., *Board Member*
Lisa A. Badenfort, *Board Member*
Richard A. Dowd, *Board Member*
Christopher L. Grabill, *Board Member*
J. Matthew Mullan, *Board Member*

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Municipal Advisor

PFM Financial Advisors LLC
San Francisco, California

Trustee

Zions Bancorporation, National Association
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the 2018 Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2018 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City or the Water System since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the 2018 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the 2018 Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

Document References and Summaries. All references to and summaries of the Fiscal Agent Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Stabilization of and Changes to Offering Prices. The Underwriter may over allot or take other steps that stabilize or maintain the market price of the 2018 Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the 2018 Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the 2018 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Section 3(a)(12) of the Exchange Act.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the Exchange Act and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Internet Website. The City maintains an internet website; however, none of the information contained on that website is incorporated by reference in this Official Statement.

[REGIONAL MAP]

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OFFICIAL STATEMENT

\$ _____ *

CITY OF SANTA ROSA
REFUNDING WATER REVENUE BONDS, SERIES 2018

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. Capitalized terms used but not defined in this Official Statement have the meanings given in the Indenture (as defined below). See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Authority for Issuance. The bonds captioned above (the “**2018 Bonds**”) are being issued by the City of Santa Rosa (the “**City**”) under the following:

- (i) A Resolution adopted by the City Council of the City (the “**City Council**”) on _____, 2018 (the “**Issuance Resolution**”);
- (ii) Article XI, Section 5, of the Constitution of the State of California and Chapter 3-12 (commencing with Section 3-12.010) of the Santa Rosa City Code, enacted pursuant to Sections 3 and 53 of the charter of the City (the “**Bond Law**”), which authorizes the City to issue its revenue bonds for the purpose of financing the City’s facilities for the transportation, treatment and distribution of water for the City’s water customers (the “**Water System**”); and
- (iii) Indenture of Trust dated as of _____ 1, 2018 (the “**Indenture**”), by and between the City and Zions Bancorporation, National Association.

Purpose of the 2018 Bonds. The 2018 Bonds are being issued to provide funds to:

- (i) defease and redeem, in full, the City’s Water Revenue Bonds, Series 2008 (the “**2008 Bonds**”), which were issued in the original aggregate principal amount of \$13,850,000 and are currently outstanding in the aggregate principal amount of \$11,035,000; and
- (ii) pay the costs of issuing the 2018 Bonds.

See “FINANCING PLAN.”

* Preliminary; subject to change.

Security for the 2018 Bonds. The 2018 Bonds are special obligations of the City, payable solely from “Net Revenues” of the Water System, and amounts on deposit in the funds and accounts established under the Indenture, as and to the extent provided in the Indenture. “Net Revenues” are generally defined in the Indenture as the “Gross Revenues” received from the Water System, less the amount of “Maintenance and Operation Costs” of the Water System (as those terms are defined in the Indenture). See “SECURITY FOR THE 2018 BONDS.”

Future Bonds and State Loans. Under the Indenture, the City may incur additional obligations secured by Net Revenues on a parity basis with the 2018 Bonds, including additional bonds issued under the Indenture and loans from the State of California (“**State Loans**”), provided that the conditions set forth in the Indenture are met. Such additional obligations are referred to in the Indenture as “**Parity Bonds**” (together with the 2018 Bonds, the “**Bonds**”), which is defined to mean all bonds, notes, or other obligations (including without limitation long-term contracts, loans, subleases or other legal financing arrangements) of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred pursuant to the Indenture. See “RISK FACTORS” and “SECURITY FOR THE 2018 BONDS – Parity Bonds.”

No Reserve Fund. The City will not fund a debt service reserve fund for the 2018 Bonds.

Rate Covenant. In the Indenture, the City covenants that it will fix, prescribe, revise and collect Charges (as defined in this Official Statement) for the services and facilities furnished by the Water System during each fiscal year that are sufficient to satisfy specific obligations of the Water System and provide certain coverage on the debt service payable with respect to the outstanding 2018 Bonds and any future Parity Bonds becoming due and payable in such fiscal year. See “SECURITY FOR THE 2018 BONDS – Rate Covenant.”

Limited Obligation. Neither the 2018 Bonds nor the obligation of the City to pay principal of or interest thereon constitutes a debt, obligation or liability of the City within the meaning of any Constitutional limitation on indebtedness, or a pledge of the full faith and credit of the City. The 2018 Bonds are secured solely by the pledge of Net Revenues of the Water System by the City and certain funds held under the Indenture. The 2018 Bonds are not secured by a pledge of the taxing power of the City. Neither the 2018 Bonds nor the obligation of the City to pay principal of or interest thereon constitutes a debt, obligation or liability whatsoever of the State of California or any of its other political subdivisions.

Risks of Investment. The 2018 Bonds are repayable only from certain money available to the City from the Water System. For a discussion of some of the risks associated with the purchase of the 2018 Bonds, see “RISK FACTORS.”

The City. The City is the county seat of Sonoma County (the “**County**”) at the crossroads of U.S. Highway 101 and State Route 12, approximately 50 miles north of San Francisco. For selected financial, economic and demographic information about the City, see “APPENDIX C – GENERAL DEMOGRAPHIC INFORMATION REGARDING THE CITY OF SANTA ROSA AND SONOMA COUNTY.”

The City’s audited financial statements for the fiscal year ended June 30, 2017, are attached to this Official Statement as APPENDIX B.

The Water System. Operations of the Water System are carried out under the general supervision of the Director of Santa Rosa Water. The Water System includes over 622 miles of pipe, one treatment plant, 22 enclosed reservoirs (water tanks), 20 water booster pump stations

and a system of pressure regulation valves to provide a constant supply of water. The entire City is included within the area currently served by the Water System. As of July 2018, the Water System serves over 52,000 customer accounts in the City and unincorporated areas of the County adjacent to the City. See “THE WATER SYSTEM.”

Definitive Statement. All descriptions and summaries of various documents in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements in this Official Statement are qualified in their entirety by reference to each document. Certain capitalized terms used in this Official Statement and not defined in this Official Statement have the respective meanings given to them in “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

FINANCING PLAN

Refunding Plan

The City issued the 2008 Bonds in July 2008 in the original aggregate principal amount of \$13,850,000 primarily to finance the acquisition and construction of certain projects of the Water System. The 2008 Bonds are currently outstanding in the principal amount of \$11,035,000, which will be redeemed in full, on _____, 2019 (the "**Redemption Date**"), at a redemption price equal to the outstanding principal amount, together with interest coming due and payable on the redemption date, without premium.

In order to accomplish the refunding plan, a portion of the net proceeds of the 2018 Bonds in the amount of \$_____, together with certain other funds on hand with respect to the 2008 Bonds, will be deposited into an escrow fund (the "**Escrow Fund**") established under an Escrow Deposit and Trust Agreement, dated as of the Closing Date (the "**Escrow Agreement**") between the City and Zions Bancorporation, National Association, the trustee for the 2008 Bonds, as escrow agent (the "**Escrow Agent**").

The Escrow Agent will hold amounts on deposit in the Escrow Fund in cash, uninvested. These funds will be sufficient to pay and redeem the 2008 Bonds in full on the Redemption Date and defease the 2008 Bonds on the delivery date of the 2018 Bonds.

Amounts held in the Escrow Fund are not available to pay debt service on the 2018 Bonds until after the redemption of the 2008 Bonds, and only as provided in the Escrow Agreement.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the 2018 Bonds are as follows:

Sources:

Principal Amount

Plus/Less Net Original Issue [Premium][Discount]

Plus Funds Related to 2008 Bonds

TOTAL SOURCES

Uses:

Deposit to Escrow Fund⁽¹⁾

Deposit to Cost of Issuance Fund⁽²⁾

Underwriter's Discount

TOTAL USES

-
- (1) Represents amounts to be used to refund and defease the 2008 Bonds. See “– Refunding Plan” above.
- (2) Represents amounts to be used to pay costs of issuance of the 2018 Bonds, which include fees of Bond Counsel, Disclosure Counsel, the municipal advisor, the trustee and any rating agency; printing costs; and other expenses.

THE 2018 BONDS

This section provides summaries of the 2018 Bonds and certain provisions of the Indenture. See APPENDIX A for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Authority for Issuance

The 2018 Bonds are being issued by the City under the following:

- (i) the Issuance Resolution;
- (ii) the Revenue Code; and
- (iii) the Indenture.

General Bond Terms

Bond Terms. The 2018 Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The 2018 Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

Payments. Interest on the 2018 Bonds will be payable on March 1 and September 1 of each year to maturity, beginning March 1, 2019 (each an “**Interest Payment Date**”).

Interest on the 2018 Bonds will be payable on each Interest Payment Date to the person whose name appears on the Bond Registration Books as the Owner as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail to the Owner or, at the option of any Owner of at least \$1,000,000 aggregate principal amount of the 2018 Bonds with respect to which written instructions have been filed with the Trustee prior to the applicable Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books.

If there exists a default in payment of interest due on such Interest Payment Date, such interest will be payable on a payment date established by the Trustee to the persons in whose names the 2018 Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered Owners of the 2018 Bonds not less than 15 days preceding such special record date.

Principal of and premium (if any) on any 2018 Bond will be paid upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee. Both the principal of and interest and premium (if any) on the 2018 Bonds will be payable in lawful money of the United States of America.

However, as long as Cede & Co. is the registered owner of the 2018 Bonds, as described below, payments of the principal of, premium, if any, and interest on the 2018 Bonds will be made directly to DTC, or its nominee, Cede & Co.

Calculation of Interest. The 2018 Bonds will be dated their date of delivery and bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment

Date next preceding its date of authentication, unless said date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless said date of authentication is prior to February 15, 2019, in which event such interest is payable from their date of delivery; provided, however, that if, as of the date of authentication of any 2018 Bond, interest thereon is in default, such 2018 Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

Record Date. The Indenture defines the “**Record Date**” for the 2018 Bonds as the 15th calendar day of the month immediately preceding an Interest Payment Date.

Book-Entry Only System. The 2018 Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company (“**DTC**”), New York, New York, as the initial securities depository for the 2018 Bonds. Ownership interests in the 2018 Bonds may be purchased in book-entry form only. Purchasers of the 2018 Bonds will not receive physical bonds representing their ownership interests in the 2018 Bonds purchased.

Principal and interest payments with respect to the 2018 Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the 2018 Bonds. See “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

So long as the 2018 Bonds are registered in the name of Cede & Co., as nominee of DTC, references in this Official Statement to the “owners” mean Cede & Co., and not the purchasers or Beneficial Owners of the 2018 Bonds. See “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Redemption*

Optional Redemption. The 2018 Bonds maturing on or before September 1, 20__, are not subject to optional redemption prior to maturity. The 2018 Bonds maturing on or after September 1, 20__, are subject to redemption prior to their respective maturity dates, at the option of the City, as a whole or in part, as determined by the City, on any date on or after ____ 1, 20__, from any source of available funds, at the principal amount of the 2018 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The 2018 Bonds maturing on September 1, 20__ and September 1, 20__ (the “**Term 2018 Bonds**”) are subject to redemption in whole, or in part by lot, on September 1 in each year commencing September 1, 20__ (with respect to the Term 2018 Bonds maturing on September 1, 20__) and commencing September 1, 20__ (with respect to the Term 2018 Bonds maturing on September 1, 20__) from sinking fund installments made by the City into the Sinking Fund Account of the Debt Service Fund pursuant to the Indenture, at a redemption price equal to the principal amount thereof to be redeemed, without premium, or in lieu thereof shall be purchased pursuant to the Indenture, in the aggregate respective principal amounts and on September 1 in the respective years as set forth in the following tables; provided, however, that if some but not all of the Term 2018 Bonds have been optionally redeemed (as described above under the subheading “– Optional Redemption”), the total amount of all future Sinking Fund Installments shall be reduced by the aggregate principal amount of Term 2018 Bonds so redeemed, to be allocated among such Sinking Fund Installments

* Preliminary; subject to change.

on a pro rata basis in integral multiples of \$5,000 as determined by the City (written notice of which determination shall be given by the City to the Trustee).

The Sinking Fund Installments applicable to the Term 2018 Bonds maturing September 1, 20__ are as follows:

Sinking Fund Account Redemption Date (<u>September 1</u>)	Sinking Fund Installments <u>Redeemed or Purchased</u>
---	---

(Maturity)

The Sinking Fund Installments applicable to the Term 2018 Bonds maturing September 1, 20__ are as follows:

Sinking Fund Account Redemption Date (<u>September 1</u>)	Sinking Fund Installments <u>Redeemed or Purchased</u>
---	---

(Maturity)

Notice of Redemption. Unless waived by the Owner of any 2018 Bonds to be redeemed, notice of any redemption of 2018 Bonds will be given, at the expense of the City, by the Trustee by mailing a copy of a redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner of the 2018 Bond or 2018 Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice will affect the sufficiency of the proceedings for the redemption of the 2018 Bonds. Any such notice also will be given to the Securities Depositories and the Information Services on the same date that it is given to the Owner of the 2018 Bonds.

However, while the 2018 Bonds are subject to DTC's book-entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the letter of representations executed by the City and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the 2018 Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any 2018 Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the Indenture.

Rescission of Redemption and Cancellation of Redemption Notice. The City may send a conditional notice of redemption that notifies the Owners of the 2018 Bonds to be redeemed that the redemption is subject to the availability of funds. The City has the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption.

Any notice of optional redemption will be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Outstanding Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture.

The City and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Selection of Bonds for Partial Redemption. If only a portion of any Bond is called for redemption, then upon surrender of such Bond redeemed in part only, the City will execute and the Trustee shall authenticate and deliver to the Owner, at the expense of the City, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Manner of Redemption. Whenever any 2018 Bonds are to be selected for redemption, the Trustee will determine, by lot, the numbers of the 2018 Bonds to be redeemed, and will notify the City thereof.

Consequences of Notice. Notice of redemption having been given as described above, the 2018 Bonds or portions of 2018 Bonds so to be redeemed will, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the City defaults in the payment of the Redemption Price) such 2018 Bonds or portions of 2018 Bonds will cease to have interest accrue thereon. Upon surrender of such 2018 Bonds for redemption in accordance with said notice, such 2018 Bonds will be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture for payment of interest. Upon surrender for any partial redemption of any 2018 Bond, there will be prepared for the Owner a new 2018 Bond or 2018 Bonds of the same maturity in the amount of the unredeemed principal. All 2018 Bonds which have been redeemed will be cancelled and destroyed by the Trustee and will not be redelivered. Neither the failure of any 2018 Bond Owner to receive any notice so mailed nor any defect therein will affect the sufficiency of the proceedings for redemption of any 2018 Bonds nor the cessation of accrual of interest thereon.

Registration, Transfer and Exchange

Bond Registration Books. The Trustee will keep or cause to be kept at its trust office sufficient Bond Registration Books for the registration and transfer of the Bonds, which will at all times during regular business hours, and upon reasonable notice, be open to inspection by the City; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as provided in the Indenture.

Transfer of 2018 Bonds. Any 2018 Bond may, in accordance with its terms, be transferred upon the Bond Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such 2018 Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed.

Whenever any 2018 Bond is surrendered for transfer, the City will execute and the Trustee will thereupon authenticate and deliver to the transferee a new Bond or Bonds of like tenor, maturity and aggregate principal amount. No 2018 Bonds the notice of redemption of which has been mailed pursuant to the Indenture will be subject to transfer under this provision of the Indenture.

Exchange of 2018 Bonds. 2018 Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for 2018 Bonds of the same tenor and maturity and of other authorized denominations. No 2018 Bonds the notice of redemption of which has been mailed pursuant to the Indenture will be subject to exchange under this provision of the Indenture.

DEBT SERVICE SCHEDULE

The schedule of annual debt service on the 2018 Bonds is presented below, assuming no optional redemption.

Period Ending September 1	Principal	Interest	Total Annual Debt Service
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
Total:			

SECURITY FOR THE 2018 BONDS

This section provides summaries of the security for the 2018 Bonds, and certain provisions of the Indenture. See APPENDIX A for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

General

Transfer and Pledge of Net Revenues. Under the Indenture, the City will transfer and assign to the Trustee, for the benefit of the Owners, the portion of the Net Revenues that is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and such portion of the Net Revenues is irrevocably pledged to the punctual payment of the principal or Redemption Price of and interest on the Bonds.

The Net Revenues may not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture.

This pledge constitutes a first, direct and exclusive charge and lien on the Net Revenues for the payment of the principal or Redemption Price of and interest on the Bonds in accordance with the terms thereof.

The following definitions are provided in the Indenture:

“Net Revenues” means, for any period of computation, the amount of the Gross Revenues received from the Water System during such period, less the amount of Maintenance and Operation Costs (as defined below) of the Water System becoming payable during such period.

“Gross Revenues” means, as for any period of computation, all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Water System or otherwise arising from the Water System during such period, including but not limited to:

- (a) all Charges (as defined below) received by the City;
- (b) all receipts derived from the investment of funds held by the City or the Trustee under the Indenture and receipts from the Rate Stabilization Fund;
- (c) all moneys received by the City from other public entities whose inhabitants are served pursuant to contracts with the City; and
- (d) moneys deposited in the Debt Service Fund or other fund to secure the Bonds or to provide for the payment of the principal of or interest on the Bonds.

“Charges” means fees, tolls, rates and rentals prescribed under the Bond Law or any other law of the State by the City Council for the services and facilities of the Water System furnished by the City, and includes water service charges, Demand Fees, connections fees and any other capacity, demand or facility fees and charges.

“Demand Fees” means the charges so denominated in Resolution No. 26820 (or any similar charge in a successor resolution or ordinance of the City), adopted by the City Council, and payable as a one-time charge at the time of and as a condition precedent to the connection of properties to the City’s portion of the Water System.

“Maintenance and Operation Costs” means the reasonable and necessary costs of maintaining and operating the Water System, calculated on sound accounting principles, including (among other things) the reasonable expenses of management, personnel, services, equipment, repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding in all cases depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

No Reserve Fund. The City will not fund a debt service reserve fund for the 2018 Bonds.

Limited Obligation of the City. The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds shall not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City within the meaning of any Constitutional limitation on indebtedness, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Water System.

Receipt and Deposit of Revenues

Under the Indenture, the City covenants and agrees that all Gross Revenues, when and as received, will be received and held by the City in trust and will be deposited by the City into a Water Utility Fund established and held by the City, and will be accounted for through and held in trust in the Water Utility Fund, and the City will only have such beneficial right or interest in any of such money as provided in the Indenture. All such Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

Allocation of Gross Revenues

Under the Indenture, all Gross Revenues will be held in trust by the City in the Water Utility Fund and will be applied, transferred, used and withdrawn only for the purposes set forth below.

(i) **Maintenance and Operation Costs.** The City will first pay from the moneys in the Water Utility Fund the budgeted Maintenance and Operation Costs as such Maintenance and Operation Costs become due and payable.

(ii) **Debt Service Fund.** On or before the second Business Day prior to each Interest Payment Date, the City will transfer from the Water Utility Fund to the Trustee for deposit in the Debt Service Fund:

(a) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding 2018 Bonds on the next succeeding Interest Payment Date, plus

(b) an amount equal to the aggregate amount of Principal Installments becoming due and payable on all Outstanding 2018 Bonds on the next succeeding Principal Payment Date.

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding 2018 Bonds.

(iii) ***Debt Service Funds for Future Parity Bonds.*** On or before the second Business Day prior to each Interest Payment Date, the City will transfer from the Water Utility Fund to the Trustee for deposit in the debt service funds created for each Series of Parity Bonds:

(a) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Parity Bonds on the next succeeding Interest Payment Date, plus

(b) an amount equal to the aggregate amount of Principal Installments becoming due and payable on all Outstanding Parity Bonds on the next succeeding Principal Payment Date.

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Parity Bonds.

(iv) ***Reserve Accounts.*** In the future, the City may establish a stand-alone debt service reserve account for any Series of Parity Bonds. After making the payments, allocations and transfers provided for in paragraphs (i), (ii) and (iii) above, if the balance on hand in the reserve account for any Series of Parity Bonds is less than the applicable reserve requirement, such deficiency shall be restored by transfers from the first moneys which become available in the Water Utility Fund to the Trustee to replenish the reserve account for any Series of Parity Bonds, on a pro rata basis.

(v) ***Surplus.*** As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in paragraphs (i) to (iv), inclusive, any moneys remaining in the Water Utility Fund may at any time be treated as surplus and applied for any lawful purpose.

Application of Debt Service Fund

Under the Indenture, the Trustee will allocate amounts in the Debt Service Fund in the following manner and order of priority:

(i) The Trustee will withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and will cause the same to be applied to the payment of said interest when due and is authorized under the Indenture to apply the same to the payment of such interest.

(ii) The Trustee will withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the Principal Installment due and payable on said Principal Payment Date, and shall cause the same to be applied to the payment of the Principal Installment when due and is authorized under the Indenture to apply the same to the payment of such Principal Installment.

(iii) All withdrawals and transfers described under paragraphs (i) or (ii) above will be made not earlier than one day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount so withdrawn or transferred will, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Payment Date.

Rate Stabilization Fund

Under the Indenture, the City has the right at any time to establish a rate stabilization fund (the “**Rate Stabilization Fund**”) to be held by it and administered in accordance with the Indenture, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time, the City may deposit amounts into the Rate Stabilization Fund from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien that secures the Bonds and any Parity Bonds, as the City may determine.

The City may, but is not required to, withdraw from any amounts on deposit in a Rate Stabilization Fund and deposit such amounts into the Water Utility Fund in any Fiscal Year for the purpose of paying Debt Service (as defined under the heading “– Rate Covenant”) coming due and payable in such Fiscal Year. Amounts so transferred from a Rate Stabilization Fund to the Water Utility Fund will constitute Gross Revenues for such Fiscal Year and will be applied for the purposes of the Water Utility Fund. Amounts on deposit in a Rate Stabilization Fund will not be pledged to or otherwise secure the 2018 Bonds or any Parity Bonds. The City has the right at any time to withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the City.

Rate Covenant

The City has covenanted in the Indenture to fix, prescribe, revise and collect Charges for the services and facilities furnished by the Water System during each Fiscal Year which (together with other funds accumulated from Gross Revenues and that are lawfully available to the City for payment of any of the following amounts during such fiscal year) are at least sufficient, after making allowances for contingencies and errors in the estimates, to produce Gross Revenues (excluding Demand Fees, connection fees and transfers to the Water Utility Fund from the Rate

Stabilization Fund) that will be sufficient to pay the following amounts in the following order of priority:

- (i) all Maintenance and Operation Costs of the Water System estimated by the City to become due and payable in such fiscal year;
- (ii) the Debt Service on the outstanding Bonds (including any State Loans) due and payable in that fiscal year; and
- (iii) all other payments due and payable in that fiscal year required for compliance with the Indenture and the instruments pursuant to which any Parity Bonds shall have been issued.

In addition, the City has covenanted in the Indenture to fix, prescribe, revise and collect Charges during each fiscal year that are sufficient to yield (a) Net Revenues, including Demand Fees, connection fees and transfers to the Water Utility Fund from the Rate Stabilization Fund, at least equal to 125% of the amounts payable under clause (ii) above in such fiscal year, and (b) Net Revenues, excluding Demand Fees, at least equal to 100% of the amounts payable under clause (ii) above in such fiscal year. See "RISK FACTORS – Articles XIIC and XIID of the California Constitution."

"Debt Service" means, during any period of computation, the amount obtained for such period by totaling the following amounts:

- (a) The principal amount of all Outstanding Serial Bonds payable by their terms in such period;
- (b) The principal amount of all Outstanding Term Bonds scheduled to be paid or redeemed by operation of mandatory Sinking Fund Installments in such period; and
- (c) The interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are paid or redeemed as scheduled; and
- (d) Loan payments to be made to the State under the State Loans.

Parity Bonds

In addition to the 2018 Bonds, the City may, by a Parity Bonds Instrument, issue or incur other loans, advances or indebtedness payable from Net Revenues to be derived from the Water System, to provide financing for the Water System, in such principal amount as may be determined by the City. The City may issue or incur any such Parity Bonds subject to the following specific conditions which are made conditions precedent to the issuance and delivery of such Parity Bonds:

- (i) The City will be in compliance with all covenants set forth in the Indenture.
- (ii) The Net Revenues, calculated on sound accounting principles as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City, in either case verified by an Independent Certified Public Accountant or Independent Consultant or shown in the audited financial statements of the City, plus, at the option of the City, any or all of the items hereinafter in this paragraph designated (i)

and (ii), must at least equal 100% of Maximum Annual Debt Service, excluding Demand Fees, and 125% of Maximum Annual Debt Service, including Demand Fees, with Maximum Annual Debt Service calculated, in each case, on all 2018 Bonds to be Outstanding immediately subsequent to the issuance of such Parity Bonds. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring Parity Bonds under the Indenture are the following:

(a) An allowance for Net Revenues from any additions to or improvements or extensions of the Water System to be made with the proceeds of such Parity Bonds, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such 12-month period, were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown in the written report of an Independent Consultant engaged by the City.

(b) An allowance earnings arising from any increase in the Charges that has become effective prior to the incurring of such additional indebtedness but that, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in Charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown in the written report of an Independent Consultant engaged by the City.

(iii) The Parity Bonds Instrument providing for the issuance of such Parity Bonds under the Indenture provides that:

(a) The proceeds of such Parity Bonds will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Water System, or otherwise for facilities, improvements or property which the City determines are of benefit to the Water System, or for the purpose of refunding any Bonds in whole or in part, including all costs (including costs of issuing such Parity Bonds and including capitalized interest on such Parity Bonds during any period which the City deems necessary or advisable) relating thereto;

(b) Interest on such Parity Bonds will be payable on an Interest Payment Date; and

(c) The principal of such Parity Bonds will be payable on September 1 in any year in which principal is payable.

The City may incur State Loans without complying with the requirements for Parity Bonds regarding interest and principal payment dates, and the obligation of the City to make payments to the State under the installment sale or loan agreement memorializing that borrowing may be treated as Parity Bonds for purposes of the Indenture; provided that the City will not make a payment on such State Loan (except as provided in the Indenture) to the extent it would have the effect of causing the City to fail to make a timely payment on the Bonds as determined by the City in its sole discretion. In the event the Net Revenues are ever insufficient to pay the full amount of

payments on the Bonds then Outstanding and such State Loans, the City will make payments on the Outstanding Bonds and such State Loans on a pro rata basis.

Subordinate Obligations

The Indenture does not prohibit or impair the authority of the City to issue bonds or other obligations secured by a lien on Gross Revenues or Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amounts as the City may determine.

Eminent Domain Proceeds

If all or any part of the Water System is taken by eminent domain proceedings, the Net Proceeds realized by the City from such proceedings will be deposited by the City with the Trustee in a special fund in trust and applied by the City to the cost of acquiring or constructing or financing Improvements to the Water System or to the redemption of the 2018 Bonds or any Parity Bonds.

Casualty Insurance

Covenant to Maintain. The City covenants in the Indenture that it will at all times maintain such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. The Indenture does not require the City to maintain earthquake insurance for the Water System.

Insurance Proceeds. If any useful part of the Water System is damaged or destroyed, such part will be restored to use. The Net Proceeds of insurance against accident to or destruction of the physical Water System will be used for repairing or rebuilding the damaged or destroyed portions of the Water System or for any lawful purpose of the Water System.

THE WATER SYSTEM

City Government

General. The City was incorporated in 1868 and became a chartered city in 1872. The City operates under the Council-Manager form of government. The City has broad powers to finance the acquisition, construction, extension or improvement of any enterprise system or facility of the City such as the Water System.

The City Council consists of seven members elected at large to serve overlapping four-year terms.

The City Council acts as the City's legislative and policy-making body and selects the City Manager. As the City's chief administrator, the City Manager is responsible for implementing the policies established by the City Council.

The Board of Public Utilities (the "**Public Utilities Board**") was created pursuant to the Charter of the City, and its members are appointed by the City Council for staggered, four-year terms. The City Charter requires the City Manager or a member of the City Manager's staff to be an ex-officio non-voting member of the Public Utilities Board. The Public Utilities Board is charged with the responsibility for maintaining, building and operating the utilities of the City, including the Water System. The City Council may act on behalf of the Public Utilities Board, with its consent, and has retained the right to establish rates and charges for utilities pursuant to ordinance. All funds and properties of the Water System are managed by the City on books separate from those of other utilities of the City.

City Council; Board of Public Utilities. Members of the City Council and the Public Utilities Board, their terms of office and a brief biographical sketch of some of the senior City staff are set forth below.

City Council

Member	Position	Term Expires
Chris Coursey	Mayor	December 2018
Chris Rogers	Vice Mayor	December 2020
Julie Combs	Council Member	December 2020
Ernesto Olivares	Council Member	December 2020
John Sawyer	Council Member	December 2018
Tom Schwedhelm	Council Member	December 2018
Jack Tibbetts	Council Member	December 2020

Board of Public Utilities

Member	Position	Term Expires
Daniel Galvin III	Chairman	December 2018
William Arnone, Jr.	Board Member	December 2018
Lisa A. Badenfort	Board Member	December 2020
Richard A. Dowd	Board Member	December 2020
Christopher L. Grabill	Board Member	December 2020
J. Matthew Mullan	Board Member	December 2018

Senior Staff. Set forth below are biographies of members of senior staff of the City with responsibility for the Water System. Operations of the Water System are carried out under the general supervision of the Director of Santa Rosa Water. Daily operations of the Water System are under the direct supervision of the Deputy Director – Local Utility Operations.

Sean McGlynn, City Manager. Sean P. McGlynn has been serving as the City of Santa Rosa's City Manager since the middle of September 2014. Prior to his current position, Mr. McGlynn served as Deputy City Manager for El Paso, Texas, the 19th most populous city in the country. Mr. McGlynn oversaw a diverse portfolio that included Aviation, City Development (El Paso's planning and economic development functions), Community Development, Destination El Paso, Libraries, Museums and Cultural Affairs, Parks, and the Zoo. The operating budget of the portfolio was over \$130 million and had over 1,000 employees. He oversaw the implementation of a \$500 million dollar Quality of Life bond investment, which garnered an over 70 percent voter approval in 2012. Mr. McGlynn managed El Paso's participation in the Rockefeller Foundation's 100 Resilient Cities initiative, for which El Paso was selected from nearly 400 applicants worldwide for inclusion in the first cohort of 32 cities. During his tenure as Deputy City Manager, the economic development team, after little job creation activity since 2007, added 1,100 jobs and recruited two large companies to El Paso: Prudential and Schneider Electric. In May 2014, El Paso's City Council asked Mr. McGlynn to serve as Interim City Manager to ensure a smooth and productive transition between City Managers.

Prior to serving as Deputy City Manager, Mr. McGlynn was the head of El Paso's Museums and Cultural Affairs where he reorganized funding opportunities to support local individual arts, launched the Public Art program, created a unique incentive package to encourage downtown events, oversaw multiple award winning exhibitions, programs, and processes, developed a public private partnership for 40 plus live/work artist spaces, garnered multiple National Endowment for the Arts grants, and was recognized by his peers as a national leader by being elected President of the Urban Arts Federation. Prior to his work in El Paso, Mr. McGlynn served six years in the Department of Cultural Affairs in New York City where he was responsible for an operating budget of over \$150 million and a ten-year capital plan in excess of \$800 million. He was also responsible for creating a City-wide after school initiative with New York City's Department of Youth and Community Development, as well as serving on the board of over ten arts and culture not-for-profit organizations.

Gloria Hurtado, Deputy City Manager. Gloria Hurtado joined the City in June 2015 as Deputy City Manager. In this role, she serves as the Chief Operating Officer overseeing internal operations and city departments. Prior to joining the Santa Rosa team, Ms. Hurtado served as Assistant City Manager for the City of San Antonio, Texas. As Assistant City Manager, Ms. Hurtado was responsible for the management and oversight of the Parks and Recreation, Library, Human Services and Health departments. The four departments represent combined budgets of \$217 million and a workforce of over 500 employees. During her tenure in San Antonio, Ms. Hurtado led efforts to improve services to the community, including implementing adult literacy services at four branch libraries with wrap around social services. She was also responsible for overseeing major capital projects that included the construction of two senior centers and "makeovers" of eight branch libraries. Ms. Hurtado also developed and implemented a successful mentoring program for women in the city organization.

Prior to joining the San Antonio team, Ms. Hurtado held various management positions with the City of Phoenix, Arizona, including 13 years as Human Services Director. In addition to overseeing the city's social service system, she managed multiple federal grants for Head Start, Senior Services and Homeless programs. Ms. Hurtado was instrumental in establishing the Continuum of Care for Phoenix and implementing comprehensive Homeless programs. Prior to her career in municipal government, Ms. Hurtado served in a variety of positions in the private and public sectors. Ms. Hurtado is a native of Los Angeles, California. She holds a B.A. in Political Science from Whittier College and an M.B.A. from the University of Phoenix.

Chuck McBride, Chief Financial Officer. Mr. McBride was appointed to the position of Chief Financial Officer on July 16, 2018. Mr. McBride holds a Bachelor's of Science degree in Economics from the University of California at Davis and a Master of Business Administration degree from the University of Southern California. He is also a Certified Public Accountant and taught fiscal and budgetary policy at San Diego State University. Mr. McBride served most recently as the Administrative Services Director for the City of Carlsbad, overseeing finance, human resources and information technology. His previous experience includes serving as Assistant Finance Director of the City of Santa Monica, he was the Accounting Manager for the City of Oceanside and JC Resorts, a private resort management company prior.

Bennett Horenstein, Director of Santa Rosa Water. Mr. Horenstein was appointed Director in March 2017. He has a Bachelor of Science in Environmental Engineering from the University of Florida and is a registered Professional Engineer, as well as a Grade V certified Wastewater Operator. He has 30 years of wastewater and water recycling experience including the management of operations in wastewater treatment and water recycling facilities, oversight of the full range of regulatory issues and associated activities, capital program planning and implementation, budget and rate development, union relations and renewable energy/sustainability programs. Most recently prior to Santa Rosa Water, he served as the Director of the Wastewater Department for the East Bay Municipal Utility District ("**EBMUD**"). Prior to his work with EBMUD, he worked as a Process Engineer with the City of Los Angeles, working for the Bureau of Sanitation for 5 years. Mr. Horenstein currently serves as a board member of the National Association of Clean Water Agencies and as chair of the Utility Leadership Committee of the California Association of Sanitation Agencies.

Jason Nutt, Director of Transportation and Public Works. Mr. Nutt was appointed to this position in March 2015, rejoining the City for a second time. Prior to this appointment, Mr. Nutt served as the Deputy Director of Public Works – Traffic between August 2005 and January 2010. Between his service times in the City, Mr. Nutt served as the Director of Public Works with the City of Novato from January 2010 and June 2013 then as the Deputy Director of Transportation and Public Works with the County of Sonoma between June 2013 and March 2015. Other prior employers have been the County of Marin and private environmental consulting firms located in the south and east areas of the Bay. He holds a Bachelor of Science degree in Civil Engineering from Santa Clara University and two advanced certificates from UC Davis Extension in Transportation Management and Land Use & Environmental Planning. He is licensed in the State of California as a Professional Civil Engineer and Traffic Engineer.

Employment; Employees' Retirement Plan

Approximately 252 people are employed by the City directly or indirectly to support the services provided by Santa Rosa Water, which is the City department that consists of three enterprise funds: the Water Utility Fund, the City's wastewater utility fund, and the City's storm water fund. Some staffing is shared among these funds and is charged among them on a percentage basis. Retirement calculations are based on only those charges to the Water System.

The Water System's cost of employees, including retirement benefits, are accounted for as Maintenance and Operation Costs.

Retirement Plan Description. All permanent employees of the City are eligible to participate in the Public Employees' Retirement Fund (the "**Fund**") of the California Public Employees' Retirement System ("**PERS**"). The Fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and memoranda of understanding with bargaining units.

All Santa Rosa Water employees are members of the City's Miscellaneous Plan, and such employees constitute 28% of all City employees that are members of the Miscellaneous Plan. The Water System is allocated its portion of the City's required contribution to the Fund as determined by PERS actuaries. The Water System contributed 100% of its allocated required contributions of \$895,156, \$1,045,600 and \$1,040,307 to PERS for the fiscal years ended June 30, 2016, 2017, and 2018, respectively. The City has budgeted to make Water System contributions of \$1,227,663 for fiscal year 2018-19. Based on the PERS actuarial valuation report for the City for the fiscal year ended June 30, 2017, the City expects an annual increase in its contribution to PERS for the Water System of approximately 16.5%, 12.1% and 9.5% in fiscal years 2019-20, 2020-21 and 2021-22, respectively.

The following table sets forth the schedule of funding for the City's Miscellaneous Plan for the fiscal years ended June 30, 2015, 2016, and 2017, based on PERS's actuarial valuation reports for such fiscal years.

Valuation Date (June 30)	Entry Age Normal Accrued Liability	Market Value of Assets	Unfunded Accrued Liability	Funded Ratio
2015	\$615,515,204	\$485,900,711	\$129,614,493	78.9%
2016	652,009,060	476,497,477	175,511,583	73.1
2017	689,730,194	516,249,979	173,480,215	74.8

The City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2017, and in particular Note 8 thereto, includes additional information on the City's pension liabilities. See APPENDIX B.

Recent Actions Taken by PERS.

PERS Actuarial Assumptions and Policies. At its April 17, 2013, meeting, PERS'

Board of Administration (the “**PERS Board**”) approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this policy change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses amortized over a 20-year period with a five-year ramp-up and five-year ramp-down period. The new amortization and smoothing policy was used for the first time in the June 30, 2013, actuarial valuations in setting employer contribution rates for fiscal year 2015-16.

On February 18, 2014, the PERS Board approved new demographic actuarial assumptions based on a 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The PERS Board also assumed earlier retirements for Police 3%@50, Fire 3%@55, and Miscellaneous 2.7%@55 and 3%@60, which will increase costs for those groups. As a result of these changes, rates increased beginning in fiscal year 2016-17 (based on the June 30, 2014, valuation) with full impact in fiscal year 2020-21.

On November 18, 2015, the PERS Board adopted a Funding Risk Mitigation Policy that seeks to reduce funding risk over time. It establishes a mechanism whereby PERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return, and strategic asset allocation targets. Reducing the volatility of investment returns is expected to increase the long-term sustainability of PERS pension benefits for members. A lower discount rate could result in a more conservative portfolio, which could require members to increase PERS contributions to offset reduced portfolio returns.

On February 13, 2018, the PERS Board voted to shorten the period over which CalPERS will amortize actuarial gains and losses from 30 years to 20 years for new pension liabilities, effective for the June 30, 2019, actuarial valuations. Amortization payments for all unfunded accrued liability bases will be computed to remain a level dollar amount throughout the amortization period, and certain five-year ramp-up and ramp-down periods will be eliminated. As a result of the shorter amortization period, the contributions required to be made by employers may increase beginning in fiscal year 2020-21.

In addition to Circular Letters #200-019-13 (Employer Rate Increases Due to Amortization and Smoothing Policy Changes) and #200-013-14 (Employer Rate Impact Due to Changes in Actuarial Assumptions) and the Funding Risk Mitigation Policy, the PERS Board may consider or approve future measures which could result in increases in the required contribution rates in the future. For complete updated inflation and actuarial assumptions, please contact PERS at the above-referenced address.

PERS Discount Rate Adjustment. On March 14, 2012, the PERS Board voted to lower the PERS’ rate of expected price inflation and its investment rate of return (net of administrative expenses) (the “**PERS Discount Rate**”) from 7.75% to 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points.

On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over the next three years in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. The new discount rate went into effect July 1, 2018, for the City. Lowering the PERS Discount Rate likely means employers that contract with PERS to administer their pension plans (such as the City) will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the PEPRA (defined below) will likely also see their contribution rates rise. The three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans and a 2-5% increase for most safety plans.

PEPRA. On September 12, 2012, the California Governor signed AB 340, a bill that enacted the California Public Employees' Pension Reform Act of 2012 ("**PEPRA**") and that also amended various sections of the California Education and Government Codes, including the County Employees Retirement Law of 1937. Effective January 1, 2013, AB 340: (i) requires public retirement systems and their participating employers to share equally with employees the normal cost rate for such retirement systems; (ii) prohibits employers from paying employer-paid member contributions to such retirement systems for employees hired after January 1, 2013; (iii) establishes a compulsory maximum non-safety benefit formula of 2.5% at age 67; (iv) defines final compensation as the highest average annual pensionable compensation earned during a 36-month period; and (v) caps pensionable income at \$110,100 (\$132,120 for employees not enrolled in Social Security) subject to Consumer Price Index increases. Other provisions reduce the risk of the City incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit. The City has implemented the requirements of PEPRA.

Description of Other Post-Employment Benefits ("OPEB"). The City sponsors a single-employer defined-benefit postemployment healthcare plan to provide medical insurance benefits to eligible retired employees and their spouses. The plan is administered by a third party. Benefit provisions are established and may be amended by the City.

The City has a stand-alone medical program for Miscellaneous employees (including all Water System employees), providing medical insurance options through City healthcare plans. The City allows retirees to continue participating in the medical insurance program after retirement, with some retirees eligible to receive a stipend from retiree medical stipend plans established for some bargaining units.

The Water System is allocated its portion of the City's OPEB costs, which were \$56,777, \$61,646, and \$67,664 for the fiscal years ended June 30, 2016, 2017, and 2018, respectively. The City has budgeted to make Water System contributions of \$69,509 for OPEB costs in fiscal year 2018-19.

The City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017, and in particular Note 9 thereto, includes information about the City's postemployment healthcare liabilities and funding.

Water Operations

The City is responsible for the transmission, transportation, and distribution of water within the City's service area. As further described below, the Water System includes over 622 miles of pipe, one treatment plant, 22 enclosed reservoirs (water tanks), 20 water booster pump stations and a system of pressure regulation valves to provide a constant supply of water. The Water System's pump stations and reservoirs are all monitored by a telemetry system using radio, conventional phone lines, and cellular phone systems to connect to the City's Supervisory Control and Data Acquisition (also known as "SCADA") system.

The entire City is included within the area currently served by the Water System. As of July 2018, the Water System serves over 52,000 customer accounts in the City and the unincorporated areas of the County adjacent to the City. The average daily demand of the Water System is approximately 21 million gallons per day ("**mgd**") and the peak demand on the Water System is 32-34 mgd.

Water Distribution System and Supply

Distribution System. The Water System consists of 622 miles of pipe, over 52,000 water service connections and meters to residential, commercial, industrial and institutional customers, more than 6,000 fire hydrants, and over 28,000 water valves. The City's water distribution system is divided into 18 major pressure zones, and several smaller sub-zones, that are served by pipelines ranging in diameter from 4 to 24 inches. The majority of services are provided via 6-inch to 12-inch diameter mains. Pipe materials include asbestos cement, PVC, ductile iron, cement mortar lined and coated steel.

Sources of Water.

SCWA. Sonoma County Water Agency ("**SCWA**"), a component unit of the County, is the water wholesaler for the County providing water for the majority of the cities within the County, including the City. SCWA's water supply is provided by a diversion of water from the Russian River, in addition to supplemental water from groundwater wells located in the Santa Rosa Plain. The City's water supply from SCWA is predominantly surface water that is provided to the City via the Santa Rosa, Sonoma, and Petaluma Aqueducts that, in addition to the Kawana Pipeline, deliver water to the City through over 30 turnouts. Most of the turnouts include pressure reducing valves off of the aqueduct (lower elevation areas) to reduce delivery pressures to a range of 45 to 85 pounds per square inch ("**psi**").

The City currently receives approximately 96% of its potable water supply from SCWA under the provisions of the Restructured Agreement for Water Supply ("**Restructured Agreement**") that was executed in June 2006. SCWA is authorized to produce and deliver potable water for municipal and industrial purposes; prevent the waste or diminution of water supplies; control and conserve flood and storm waters to reduce potential damage to life and property; provide sanitary sewage services; and provide recreational services in connection with flood control and water conservation activities. SCWA operates under the direction of a Board of Directors that, for governance of the water system, consists of the Sonoma County Board of Supervisors.

SCWA's rates and charges for water supplied to the City are set by SCWA by the April 30 before each fiscal year and include operation and maintenance and capital charge

components. Such rates and charges are passed through to the Water System's ratepayers. The Water Advisory Committee, established under the Restructured Agreement and composed of a representative selected by each water contractor (as defined below), is given the opportunity to review and approve significant capital outlay for SCWA's transmission system or any project that would significantly change the level of service or add significantly to the operations and maintenance of SCWA's transmission system or other expense to be borne by the water contractors. SCWA has not increased its fees and charges more than 5% in any year in the past five years. See "– Rates and Charges."

The Restructured Agreement allows the City to take delivery of up to 29,100 acre-feet per year ("**afy**") of water. The contract remains in effect until June 30, 2040, and cannot be terminated prior to expiration. The Restructured Agreement provides that SCWA will enter into renewal agreements not to exceed 40 years with any party to the Restructured Agreement, such as the City, that requests such an extension.

SCWA delivers water on a wholesale basis to customers through its water transmission system. The primary water customers (collectively, the "**water contractors**") consist of the City and the cities of Rohnert Park, Petaluma, Cotati, and Sonoma; the Town of Windsor; and the North Marin Water District and Valley of the Moon Water District. The responsibility for supplying water to the water contractors is entrusted to SCWA under the Restructured Agreement. SCWA also provides water on a wholesale basis to and/or has authorized the exercise of its water rights by additional water purveyors, including but not limited to Marin Municipal Water District; the Forestville Water District; and the California-American, Lawndale Mutual, Penngrove, and Kenwood Water Companies.

SCWA's primary source of supply is the Russian River. Water is collected from the Russian River at two sites, both located near Forestville, through three Ranney collectors (a type of radial well used to extract water from an aquifer with direct connection to a surface water source) at Wohler Road and three Ranney collectors at Mirabel Road; the Ranney collectors comply with existing water quality standards. SCWA has constructed several infiltration ponds that surround the collectors. An inflatable dam on the Russian River raises the water level of the Russian River during periods of low flow and diverts water through a dike into a system of ditches that supply the infiltration ponds that surround the Mirabel Road collectors. The backwater created by the dam also raises the upstream water level, which increases the rate of infiltration to the Wohler Road collectors. Permanent fish ladders provide fish passage around the dam when it is raised. In the late 1990s, seven vertical wells were constructed near the Mirabel collectors to provide back-up emergency water supply capacity.

SCWA also has three groundwater wells that provide additional potable supply as needed. They are located near the Laguna de Santa Rosa and feed directly into SCWA's Russian River-Cotati Intertie Pipeline. SCWA treats all of its water supply with chlorine (in the form of chlorine gas) for bacterial disinfection and sodium hydroxide to adjust the pH in the water to help minimize the leaching of copper and other metals from the distribution pipe into the drinking water before it is delivered to the City. There is no additional treatment of the water supplied by SCWA by the City.

Prior to 1959, the City relied primarily on groundwater from the Santa Rosa Plain Sub-basin of the Santa Rosa Valley Groundwater Basin for its water supply. As of June 1959, SCWA began supplying surface water to the City and other contractors. The City

relied solely on purchased surface water deliveries from SCWA to meet its water demands until adding two groundwater wells back into its supply portfolio in June 2007. Currently, the City maintains a total of six municipal groundwater wells, including two used for ongoing potable supply, one used exclusively for landscape irrigation, and three serving as stand-by emergency wells (one of which is currently out of service) within the Santa Rosa Plain Sub-Basin.

Other Sources of Supply. In addition to SCWA supply, in July 2005, the City received permission from the California Department of Public Health (“DPH”) to use two of its own groundwater wells for supply to meet future demands. In July 2007, the City began using these wells to meet water supply demand in the City, and they have been used each year since. The City is permitted to provide up to 2,300 afy of water from these wells, and in 2017, the City produced 1,309 acre-feet of groundwater.

The City is also the owner and operator of the subregional wastewater treatment and disposal system (also known as the “Subregional System”), which produces recycled water. The City used 151 afy of recycled water in 2017 for landscape irrigation, offsetting demand for its potable water supply. The City has up to 6,600 afy of additional recycled supply available.

Water Pump Stations

Delivery of water to pressure zones that cannot be supplied directly from the SCWA aqueduct is accomplished through a series of pumping stations. The City maintains and operates 20 booster pump stations for the delivery of water and to maintain water system pressure. Pump station capacity ranges from approximately 150 gallons per minute (“gpm”) to 5,000 gpm.

Water Storage

Water storage is located throughout the City’s distribution system to provide for equalization of peak demands, reserves for fire protection, and reserves for emergency conditions. The City’s 23 steel water reservoirs (tanks) have a combined storage of approximately 28 million gallons. They range in size from 4,000 gallons to 4 million gallons and hold up to two days of water supply. Most of these reservoirs are located in the higher elevations of the City. The City is undertaking a program to seismically upgrade all City reservoirs to current seismic standards.

Environmental Compliance

The Water System is subject to regulatory requirements imposed by DPH. Regulations deal primarily with the quality of drinking water. To comply with mandated water quality, the City must operate the Water System facilities according to DHS, Domestic Water Supply Permit No. 02-93-041, issued on January 12, 1994, and Amendment No.1 to the permit issued on July 20, 2005. The permit has no expiration date and may be amended from time to time.

In October 2017, the Tubbs wildfire destroyed property in the Fountaingrove area of the City. Damage to plastic water pipes caused benzene to become present in portions of the water system in and around the area affected by the wildfire. In response to the damage and the presence of benzene, the City undertook a program to replace affected lines, meters, and dead-end water mains. As of September 2018, the City has completed the necessary replacements.

See “THE WATER SYSTEM – Capital Improvement Program” and “RISK FACTORS –Natural Disasters.”

Seismic Considerations

One of the objectives in planning and operating the Water System Water System is to minimize potential impacts on service availability and financial resources arising from natural disasters such as earthquakes. To date, there has not been significant damage to the Water System or significant impairment of its ability to provide services as a result of seismic activity.

Several active fault zones lie within northern California. In recognition of this potential hazard, the Water System facilities are designed to either withstand a maximum probable seismic event or to minimize the potential repair time in the event of damage. City personnel and independent consultants periodically reevaluate the Water System’s vulnerability to earthquakes. The City has developed an emergency plan that calls for specific levels of response appropriate to an earthquake’s magnitude and location. Included in this response are a variety of communication tools as well as a structured plan of management that varies with the severity of the event.

The Indenture does not require the City to maintain earthquake insurance for the Water System. See “SECURITY FOR THE 2018 BONDS – Casualty Insurance” and “RISK FACTORS – Natural Disasters.”

Water Consumption

The table below provides an overview of metered water consumption by customer class for fiscal year 2013-14 through 2017-18.

TABLE 1
CITY OF SANTA ROSA WATER SYSTEM
(In Acre-Feet)

Fiscal Year	Single-Family Residential and Duplex	Multifamily, Commercial, Industrial and Institutional	Total
2013-14	10.54	7.73	18.27
2014-15	9.11	7.36	16.47
2015-16	8.28	6.77	15.05
2016-17	9.08	7.19	16.27
2017-18	9.51	7.55	17.06

Source: City of Santa Rosa.

Service Area Growth

Set forth in the following table is a history of customers served by the Water System in the City and in the adjacent unincorporated areas of Sonoma County.

**TABLE 2
CITY OF SANTA ROSA WATER SYSTEM
CITY CUSTOMERS SERVED**

Fiscal Year	Population	Customer Accounts ⁽¹⁾		
		Single-Family Residential and Duplex	Multifamily, Commercial, Industrial and Institutional	Total
2008-09	165,405	No Data ⁽²⁾	No Data ⁽²⁾	43,600
2009-10	167,815	43,703	5,791	49,494
2010-11	168,766	44,144	5,747	49,891
2011-12	170,339	44,571	5,724	50,295
2012-13	171,971	44,938	5,667	50,605
2013-14	173,611	45,272	5,674	50,946
2014-15	175,693	45,591	5,651	51,242
2015-16	176,937	45,782	5,656	51,438
2016-17	178,064	45,951	5,685	51,636
2017-18	178,488	46,156	5,754	51,910

(1) Consists of active Water System customer accounts. In fiscal year 2017-18, includes properties destroyed in the Tubbs Fire of October 2017 that were active during a portion of that fiscal year. "RISK FACTORS –Natural Disasters."

(2) Current billing system did not exist, so only total use data is available.

Source: State Department of Finance, Demographic Research Unit for population data. City of Santa Rosa.

Service Area Profile

The following table sets forth the current distribution of water meters in the Water System in the City by meter size.

TABLE 3
CITY OF SANTA ROSA WATER SYSTEM
WATER METERS BY METER SIZE
(As of June 30, 2018)⁽¹⁾

Meter Size	Single-Family Residential and Duplex		Multifamily, Commercial, Industrial and Institutional		Total	
	#	% of Total	#	% of Total	#	%
5/8"	43,845	82.2%	3,211	6.02%	46,347	88.22%
1"	2255	4.23	2,070	3.88	2,269	8.11
1 1/2"	62	0.12	335	0.63	292	0.75
2"	13	0.02	1354	2.53	1,383	2.55
3, "4, 6" & 8"	0	0	198	0.37	198	0.37
	46,175	86.57%	7,168	13.43	53,343	100.0%

(1) The amounts in Table 3 differ from those of Table 2 because individual customer accounts may have multiple water meters.
Source: City of Santa Rosa.

The top 10 water customers in the City served by the Water System for fiscal year 2017-18 are set forth below.

TABLE 4
CITY OF SANTA ROSA WATER SYSTEM
TOP 10 WATER CUSTOMERS IN CITY
(Fiscal Year 2017-18)

Customer Name/Description	Gallons Billed (In thousands)	Amount Billed	Percentage of Total Billed
City of Santa Rosa	156,278	\$976,687	2.27%
Technology Company	58,719	349,631	0.81
Food Processor	55,728	333,224	0.77
Housing Developer	50,452	374,587	0.87
County of Sonoma	38,960	294,303	0.68
Santa Rosa City Schools	31,916	222,638	0.52
Medical Facility	25,477	173,145	0.40
Educational Facility	25,181	177,376	0.41
Medical Facility	23,445	159,666	0.37
Assisted Living Community	22,366	154,912	0.36
Total Top 10	\$488,522	\$3,216,170	7.48%
Water System Total	\$5,560,183	\$43,012,712	100.00%

Source: City of Santa Rosa.

Rates and Charges

Approval Process. The Public Utilities Board annually reviews and periodically makes recommendations for water user rates for City customers. Rate changes are subject to approval by the City Council. The current water rates were approved and adopted by Ordinance No. 4056 of the City Council adopted on December 1, 2015, in accordance with the requirements of Articles XIII C and XIII D of the California Constitution, and have been reflected on billings rendered as of January 5, 2016, as described below. Rate increases are reviewed annually by City Council as part of the budgeting process and can be set lower than the rate increases approved pursuant to Ordinance No. 4056. See “RISK FACTORS – Articles XIII C and XIII D of the California Constitution” for a discussion of provisions of the California Constitution that limit the City’s ability to increase or tier rates.

Ordinance No. 4056 authorized the maximum rate increases shown in the table below.

TABLE 5
CITY OF SANTA ROSA WATER SYSTEM
MAXIMUM RATE INCREASES APPROVED UNDER ORDINANCE NO. 4056
(Fiscal Years 2018-19 through 2020-21)

<u>Fiscal Year</u>	<u>% Increase</u>
2018-19	5.0% ⁽¹⁾
2019-20	5.0
2020-21	5.0

(1) Rate increases are reviewed annually by the City Council as part of the budgeting process and can be set lower than the rate increases approved pursuant to Ordinance No. 4056. For fiscal year 2018-19, the City Council approved the full rate increase that had been approved pursuant to Ordinance No. 4056.

Historical Rates. The following table sets forth the history of the last 10 system-wide average rate increases by the City.

TABLE 6
CITY OF SANTA ROSA WATER SYSTEM
LAST 10 SYSTEM-WIDE AVERAGE RATE INCREASES

	Usage Charge	Fixed Monthly Charge
January 2012	1.0%	18.0% ⁽¹⁾
January 2013	1.0	15.2 ⁽¹⁾
January 2014	3.5	5.0
January 2015	3.5	5.0
January 2016	0.0	5.0
July 2016	0.0	5.0
July 2017	0.0	5.0
July 2018	0.0	5.0
July 2019	0.0	5.0
July 2020	0.0	5.0

(1) Increase due to gap in prior years' increases.
Source: City of Santa Rosa.

Current Rates. The current Water System rates are composed of a (i) “**fixed monthly charge**” that is based on water meter size and (ii) “**user charge**” that (a) for any single-family residential, duplex or commercial customer that uses its water meter for irrigation, is based on the average indoor water consumption by the user during the winter billing periods between November and March (which is used to determine the number of sewer billing units) (such average is referred to as the “**sewer cap**”), which is typically the rainy season and consequently represents a fair estimate of the non-irrigation, internal water use of a customer, and (b) for all other customers, is based on actual water usage.

The sewer cap is used throughout the year until July of the next year when each customer’s sewer billing unit is again recalculated; the sewer cap limits the user charge, but if monthly water usage is ever less than the sewer cap, the user charge is based on water usage, not the sewer cap. Consequently, drought could potentially affect the Water System’s user charge revenue if customers aggressively conserve during the winter months. For more information, see “RISK FACTORS – Natural Disasters.”

The current maximum City Council-approved fixed charges and user charges are summarized in the table below. Information about SCWA’s rates can be found at its website, www.scwa.ca.gov. *The information contained on this Internet website is provided for reference purposes only and is not incorporated by reference in the Official Statement.*

TABLE 7
CITY OF SANTA ROSA WATER SYSTEM
MONTHLY FIXED CHARGES
Current and Future Rates⁽¹⁾

Customer User Charge (By Meter Size)	Current Rates (July 1, 2018)	Projected Rates (As of July 1, 2019)	Projected Rates (As of July 1, 2020)
Potable:			
5/8" & 3/4"	\$12.48	\$13.10	\$13.76
1"	27.99	29.39	30.86
1.5"	53.84	56.53	59.36
2"	84.87	89.11	93.57
3"	157.24	165.10	173.36
4"	260.65	273.68	287.36
6"	519.14	545.10	572.36
Recycled:			
5/8" & 3/4"	11.24	11.80	12.39
1"	25.14	26.45	27.77
1.5"	48.46	50.88	53.42
2"	76.38	80.20	84.21
3"	141.52	148.60	156.03
4"	234.58	246.31	258.63
6"	467.23	490.59	515.12
City- Maintained Meters on Private Water Systems:			
5/8" & 3/4"	8.00	8.40	8.82
1"	10.37	10.89	11.43
1.5"	11.01	11.56	12.14
2"	14.68	15.41	16.18
3"	40.76	42.80	44.94
4"	56.85	59.69	62.67
6"	107.46	112.83	118.47

(1) Based on Ordinance No. 4056, adopted by the City Council on December 1, 2015.

TABLE 8
CITY OF SANTA ROSA WATER SYSTEM
MONTHLY USER CHARGES
Current and Future Rates⁽¹⁾

Tier Allocation	User Charge (\$s per 1,000 gallon) for Meters Read Each Year Through July 1, 2020 - Excl. SCWA Pass- Through⁽¹⁾	User Charge (\$s per 1,000 gallon) for Meters Read as of July 1, 2018 - Incl. SCWA Pass- Through⁽²⁾
Residential:		
Tier 1 - Up to account's sewer cap	\$5.25	\$5.60
Tier 2 - Usage over the account's sewer cap	6.14	6.52
Dedicated Irrigation (Potable):		
Tier 1 - Up to 125% of billing period water budget	5.29	5.64
Tier 2 - Over 125% of billing period water budget	6.70	7.08
Recycled Water (Irrigation):		
Tier 1 - Up to 125% of billing period water budget	5.03	5.36
Tier 2 - Over 125% of billing period water budget	6.37	7.08
Recycled Water (Commercial/Industrial):	5.03	5.64
Multi-Unit Residential:	5.59	5.94
Commercial/Industrial/Institutional:	5.59	5.94

(1) Based on Ordinance No. 4056, adopted by the City Council on December 1, 2015. Excludes the pass-through of any adopted increases or decreases in the fees and charges established by SCWA. See "– Water Distribution System and Supply – SCWA."

(2) Includes the pass-through of any adopted increases or decreases in the fees and charges established by SCWA. See "– Water Distribution System and Supply – SCWA."

TABLE 9
CITY OF SANTA ROSA WATER SYSTEM
TYPICAL MONTHLY WATER CHARGES FOR SINGLE-FAMILY USER⁽¹⁾

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19
\$ Per Month	\$50.83	\$52.17	\$54.71	\$56.22	\$57.52
% Change over Previous Year	--	2.6%	4.9%	2.8%	2.3%

(1) Average bill based on 7,600 gallons of water with 4,900 in tier 1 and 2,700 in tier 2 usage charge and including fixed charge.
Source: City of Santa Rosa.

The following tables set forth a comparison of the rates adopted by the City and those existing in neighboring cities for fiscal year 2017-18.

TABLE 10
CITY OF SANTA ROSA WATER SYSTEM
COMPARISON OF 2018 WATER RATES
FOR SINGLE-FAMILY USERS⁽¹⁾

	Average Monthly Water Bill (7,600 gallons) ⁽²⁾
Windsor	\$29.76
Sebastopol	54.85
Petaluma	52.62
San Francisco	89.03
Santa Rosa	57.52
Rohnert Park	45.55
Marin Municipal Water District	59.09
Cotati	59.27
Healdsburg	61.29

(1) Current rates were obtained by City staff through speaking with staff in other cities and/or review most recent rate sheets.

(2) 7,600 gallons is the average monthly water use of all single-family residential accounts in the City.
Source: City of Santa Rosa.

Demand Fees. The latest demand fee ordinance follows a City-commissioned Santa Rosa 2014 Water and Wastewater Demand Fee Study. The current methodology computes demand fees based on a modified system buy-in approach, which resulted in a significant reduction from previous demand fees.

Pursuant to the City's latest water demand fee resolution (resolution number 28547) effective August 26, 2014, the residential Demand Fee rates will be increased (or decreased) on January 1 of each calendar year by a percentage equal to the percentage change in the Engineering News Record 20 Cities Construction Cost Index (published by The McGraw-Hill Companies, Inc.) for the 12-month period ending November 30 of the prior calendar year. The ordinance also provides that demand fees will be reviewed at least every five years and be increased or decreased to take actual changes in the City's General Plan or Department Master Plans into consideration

The table below sets forth the current schedule of residential Demand Fees and the Demand Fee schedule effective since January 1, 2018.

**TABLE 11
CITY OF SANTA ROSA WATER SYSTEM
RESIDENTIAL DEMAND FEE SCHEDULE**

Type of Connection	Demand Fee Effective January 1, 2018
Single Family Residential	
6,000 square feet and under	\$2,689
Over 6,000 square feet up to one acre	5,267
Over one acre	7,571
Condominiums, Apartments, Mobile Homes, Duplex and Triplex	2,469
Second Unit or Senior Housing Unit	1,234

Source: City of Santa Rosa.

The City also currently charges a one-time processing fee of \$510 per new residential connection to the water system.

The current nonresidential water Demand Fee is determined based on a rate of \$275 per thousand gallons per month (“TGM”) times an estimated monthly flow quantity. Water demand fees for non-residential development (commercial, industrial and irrigation) are based on estimated water demand for each new connection.

The following table shows a comparison of demands fees of other water systems in the same region to those of the Water System.

**TABLE 12
CITY OF SANTA ROSA WATER SYSTEM
REGIONAL COMPARISON OF DEMAND FEES⁽¹⁾**

City	Residential		Commercial	
	Basis of Calculation	Fee	Basis of Calculation	Fee
Santa Rosa	Medium Lot (6,000 square feet to 1 acre)	\$6,137	TGM (10,000 square feet office)	\$3,620
Cotati	Residential Unit	\$14,459	1” meter (10,000 square feet office)	14,459
Healdsburg	Residential Unit	\$6,603	Flow and Strength (10,000 square feet office)	10,745
Sebastopol	Residential Unit	\$4,125	1” meter	4,690

(1) All meter connections are based on 1” meters to be consistent.
Source: City of Santa Rosa.

Revenues from Demand Fees are related directly to development activity in the Water System service area. Reductions in construction activity such as those currently being experienced may result in the receipt by the City of significantly lower Demand Fees revenues.

See “APPENDIX D – GENERAL DEMOGRAPHIC INFORMATION REGARDING THE CITY OF SANTA ROSA AND SONOMA COUNTY – Construction Activity.”

Billing and Collection Procedures

Bills for Water System customers within the City are computer-generated and included with the wastewater billing. These bills are sent to customers on a monthly basis. The bills are collected by the Revenue Division of the Finance Department. Upon presentation of a bill, a customer is given 21 days to pay the bill and the account becomes delinquent at 45 days. Delinquent accounts are subject to disconnection of the customer's water service.

There are three types of accounts: Water/Sewer, Water-only and Sewer-only. In fiscal year 2017-18, over 88% of all bills are paid within 36 days of the billing date and, therefore, do not become delinquent. In fiscal year 2017-18, nearly all delinquencies of active customers are brought current within 90 days utilizing disconnection of water service as the main collection tool. For fiscal year 2017-18, the total amount of fixed charges and user charges on domestic accounts billed was approximately \$37.4 million and outstanding bills on 984 accounts (mostly closed) were sent to a collection agency was \$238,798 for all services. For fiscal year 2017-18, the fixed charges and user charges sent to a collection agency is approximately 0.18% of total receivables (approximately \$68,000). The collection agency has recovered approximately 18% of such amount.

Capital Improvement Program

In order to assess the Water System capital improvement needs of the Water System through 2020, the City commissioned an outside consultant in 2014 to update the City's Water System Master Plan (the “**Master Plan Report**”). The City's master plan assesses both the condition of existing distribution and storage facilities and the need for new facilities based on growth projections in the City's General Plan. The Master Plan Report estimated that approximately \$22.2 million in additional capital costs would be required through projected build-out in 2035 in order to correct existing deficiencies in the distribution and storage facilities of the Water System and approximately \$28.2 million in additional capital costs could be expected through projected build-out in order to accommodate planned growth. These figures do not include the costs of any pipeline required to be installed within a City-designated specific plan area or as part of a new development project, which costs the City requires to be funded by such project proponents. Projects identified as correcting existing deficiencies in distribution and storage facilities of the Water System will be integrated into the City's existing capital improvement program for the Water System.

The City's five-year projection for Water Capital Improvement Program projects includes a proposed approximately \$66.19 million of projects that are to be funded by user rates and demand fee revenues. The City intends that projects identified in the master plan to accommodate development will be built by outside developers as a condition of their development according to the needs of the master plan.

The CIP-budgeted funding for fiscal year 2018-19 reflects preparation for a worst-case scenario project, the replacement of five miles of water main due to direct and indirect damage from the Tubbs wildfire of October 2017, which damage included the presence of benzene in the system in and around the area affected by the wildfire. Subsequent to the budgeting process, it was determined that the full replacement was unnecessary and that the project would be substantially less expensive as a result, requiring only the replacement of meters and lines for

lots in the affected area and the replacement of two dead-end water mains. This smaller project was completed as of September 2018. Even with the planning for the worst-case scenario project, the Water System was in a position to cash-fund the project with newly appropriated funds, catastrophic reserves and redirection of funds previously appropriated to other planned projects. The City also expects to receive reimbursement from the Federal Emergency Management Agency (“**FEMA**”) for up to 75% of the funds needed for fire-related repairs over the next several years. No other capital improvement programs are expected related to the wildfire.

The table below sets forth the estimated five-year capital improvement plan for the Water System to be funded from expected revenues and funds on hand. The City believes that such resources will be adequate to meet the Water System’s capital needs over the periods shown.

TABLE 13
CITY OF SANTA ROSA – WATER SYSTEM
ESTIMATED CASH-FUNDED CAPITAL IMPROVEMENT PLAN
(\$000)

	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22	Fiscal Year 2022-23	Total
Cash-Funded Capital Improvement Expenditures	\$13,000	\$13,000	\$13,390	\$13,790	\$14,190	\$66,190

Source: City of Santa Rosa.

Existing Debt Obligations

The City issued the 2008 Bonds primarily to finance the acquisition and construction of projects of the City’s municipal water enterprise. As described under the heading entitled “FINANCING PLAN,” the proceeds of the 2018 Bonds will be used, along with other available funds, to defease and redeem all the outstanding 2008 Bonds on the date of delivery of the 2018 Bonds.

Financial Management and Policies

The City Council has adopted, and the City staff has implemented, a policy of maintaining the following discretionary reserves:

- Unrestricted fund balances (operating reserves) of 15% of actual annual expenditures of the Water System.
- A \$2 million capital reserve.
- A \$5.75 million catastrophic reserve.

The City is currently in compliance with its reserve policy, but the City Council may amend or discontinue the policy at any time. The City is also establishing a Rate Stabilization Fund under the Indenture, as described under the heading “SECURITY FOR THE 2018 BONDS – Rate Stabilization Fund.”

Historical and Projected Revenues, Expenses and Debt Service Coverage

The following table sets forth the City's historical and projected Gross Revenues, Maintenance and Operation Costs, Net Revenues, debt service and debt service coverage for the period shown. The projections are based on the assumptions described in the footnotes to the table.

The financial forecast contained in the table below represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions contained in the footnotes to Table 14 are material in the development of the City's financial projections, and deviations from the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

TABLE 14
CITY OF SANTA ROSA WATER SYSTEM
HISTORICAL AND PROJECTED REVENUES, EXPENSES AND DEBT SERVICE COVERAGE
(\$000)

	Historical ⁽¹⁾				Estimated	Projected			
	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18 ⁽²⁾	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
Water System Revenues:		--	--	--					
User Charges ⁽³⁾	--	--	--	--	\$43,830	\$44,801	\$45,991	\$47,825	\$49,746
Other Revenues ⁽⁴⁾	--	--	--	--	588	453	207 ⁽¹⁴⁾	211	215
Interest Earnings ⁽⁵⁾	--	--	--	--	788	584	631	676	726
Subtotal	--	--	--	--	45,207	45,838	46,829	48,712	50,686
Demand Fees ⁽⁶⁾	--	--	--	--	2,081	2,122	2,165	2,208	2,252
Total Gross Revenues ⁽⁷⁾	\$44,471	\$42,119	\$40,585	\$46,549	\$47,287	\$47,960	\$48,994	\$50,920	\$52,938
Total Maintenance and Operation Costs ⁽⁷⁾⁽⁸⁾	(26,119)	(25,758)	(26,195)	(27,798)	(34,183)	(33,844) ⁽¹³⁾	(35,123)	(36,454)	(37,840)
Net Revenues ⁽⁷⁾	\$18,352	\$16,361	\$14,390	\$18,751	\$13,104	\$14,116	\$13,871	\$14,466	\$15,098
Debt Service subject to coverage ratio ^{*(9)}	\$875	\$874	\$873	\$877	\$874	\$872	\$745	\$745	\$745
Debt Service Coverage ^{*(10)}	2097%	1872%	1649%	2139%	1499%	1619%	1862%	1942%	2027%
Debt Service (excl. Demand Fees) ^{*(11)}	1967%	2004%	1738%	2253%	1261%	1376%	1571%	1645%	1724%
Surplus	--	--	--	--	\$12,230	\$13,245	\$13,126	\$13,721	\$14,353
Ongoing Capital Improvement Plan ⁽¹²⁾	--	--	--	--	\$13,010	\$13,000	\$13,000	\$13,390	\$13,790
Water Utility Fund Available Surplus (ending balance)	--	--	--	--	\$21,112	\$21,357	\$21,483	\$21,814	\$22,377

* Amounts shown for fiscal year 2018-19 and thereafter are preliminary, subject to change.

- (1) Historical information sourced from (and conforms in scope) to presentation of information in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017.
- (2) Unaudited.
- (3) Assumes City Council pre-approved rate increases through fiscal year 2020-21, as described under "THE WATER SYSTEM – Rates and Charges," and no increases thereafter because the City Council has not yet determined or approved any rate plan for years subsequent to fiscal year 2020-21.
- (4) Includes all revenues of the Water System other than those listed separately.
- (5) Assumes 1% earnings rate on reserves and carry-over capital improvement project amounts.
- (6) Projections assume City's Demand Fee revenues for fiscal year 2018-19 meet budgeted amounts. Thereafter, projections assume 2% annual growth.
- (7) Calculated in accordance with the Indenture. The Demand Fee component of Gross Revenues (\$ in thousands) was \$1,142, \$1,479, \$1,741, and \$1,572, for fiscal years 2013-14, 2014-15, 2015-16 and 2016-17, respectively.
- (8) Assumes 4% annual growth in Maintenance and Operation Costs.
- (9) Bond debt service on a fiscal year basis. Assumes no additional State Loans are executed or Parity Bonds issued.
- (10) Equals Net Revenues divided by debt service subject to coverage ratio. The Indenture requires 125% coverage.
- (11) Equals Net Revenues, less Demand Fees, divided by debt service subject to coverage ratio. The Indenture requires 100% coverage.
- (12) Normal Water System capital improvement plan appropriations of \$13,000,000 increased by \$10,000 in grant revenues for fiscal year 2017-18, and begin escalating at a rate of 3% per year in fiscal year 2020-21 per the current rate plan. See "THE WATER SYSTEM – Capital Improvement Program" above.
- (13) Reduction in Maintenance and Operation Costs in fiscal year 2018-19 due to reduced staffing and reduction in purchases of water from SCWA (which resulted from the City's halting its practice of budgeting for a contingency water purchase that it determined to be unnecessary).
- (14) Projected decrease in fiscal year 2019-20 is due to the City's anticipation that it will not receive Proposition 84 grant funds in such fiscal year and thereafter.

Source: City of Santa Rosa.

RISK FACTORS

The following describes certain special considerations and risk factors affecting the payment of and security for the 2018 Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any 2018 Bonds, and the order presented does not necessarily reflect the relative importance of the various risks. Potential investors in the 2018 Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the 2018 Bonds. There can be no assurance that other considerations will not materialize in the future.

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for water sales, which can be affected by population factors and more stringent drinking water regulations. There can be no assurance that water service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for water could require an increase in rates or charges in order to comply with the rate covenant contained in the Indenture. The City's ability to meet its rate covenant is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the 2018 Bonds and any future Parity Bonds.

No Debt Service Reserve Fund

The City will not fund a debt service reserve fund for the 2018 Bonds. In the event Net Revenues are insufficient for the City to pay debt service on the 2018 Bonds when due, no debt service reserve account funds will be available under the Indenture for the City to make such payments.

City Expenses

There can be no assurance that expenses of the City will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, and increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenant in the Indenture. Such rate increases could drive down demand for water and related services or otherwise increase the possibility of nonpayment of the 2018 Bonds.

Environmental Regulation

The kind and degree of water treatment is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Water System and mandate its use of technology. If the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter water quality standards upon the Water System, the City's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses.

It is not possible to predict the direction which federal or state regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Insurance

The Indenture obligates the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Water System in the event of damage or destruction to such portion of the Water System. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Water System. Significant damage to the Water System could cause the City to be unable to generate sufficient Net Revenues to pay principal of and interest on the Bonds (including the 2018 Bonds and any Parity Bonds).

The Indenture does not require the City to maintain earthquake insurance for the Water System. See “– Natural Disasters” and “SECURITY FOR THE 2018 BONDS – Casualty Insurance.”

Limitations on Remedies Available to Bond Owners

The ability of the City to comply with its covenants under the Indenture and generate Net Revenues sufficient to pay principal of and interest on the 2018 Bonds may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the 2018 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 limitations on Bondholder remedies contained in the Indenture, the rights and obligations under the 2018 Bonds and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; usual equity principles that 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 United States 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 2018 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Demand and Usage

There can be no assurance that the local demand for services provided by the Water System will continue according to historical levels. In addition, drought conditions and voluntary or mandatory conservation measures could decrease usage of the services of the Water System. See “– Natural Disasters.”

Reduction in the level of demand or usage could require an increase in rates or charges in order to produce Net Operating Revenues sufficient to comply with the City’s rate covenants. Such rate increases could increase the likelihood of nonpayment.

Parity Bonds

The Indenture permits the City to issue additional obligations secured by a pledge of Net Revenues that is on a parity basis to the pledge of Net Revenues to the 2018 Bonds (see “SECURITY FOR THE 2018 BONDS – Parity Bonds” above). The coverage tests described in “SECURITY FOR THE 2018 BONDS – Parity Bonds” involve, to some extent, projections of Net Revenues. If such indebtedness is issued, the debt service coverage for the 2018 Bonds could be diluted below what it otherwise would be. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Bonds (including the 2018 Bonds and any Parity Bonds).

Natural Disasters

General. From time to time, the City is subject to natural calamities that may adversely affect economic activity in the City, which could have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the Water System, or that the City would have insurance or other resources available to make repairs to the Water System in order to generate sufficient Net Revenues to pay debt service on the 2018 Bonds when due.

Other than as described below, the casualty and liability insurance maintained by the City does not currently cover damage and losses to the Water System due to seismic damage or flood.

Seismic. The following information is excerpted from the City’s General Plan. According to the General Plan, the City is within the natural region of California known as the Coast Ranges geomorphic province.

According to the General Plan, earthquakes pose especially high risks to the City because of the City’s proximity to active faults. The Rodgers Creek Fault Zone, approximately 8 miles southeast of the Maacama Fault Zone, and 20 miles northeast of the San Andreas Fault Zone runs through the central part of the City. The Rodgers Creek and San Andreas faults are the two principally active, Bay Area “strike-slip” faults and have experienced movement within the last 150 years. The San Andreas Fault Zone is a major structural feature in the region. Other principal faults capable of producing ground shaking in the City include the Hayward fault, San Gregorio-Hosgri Fault Zone, the Calaveras fault, and the Concord-Green Valley fault.

The City could experience a major Rodgers Creek Fault Zone earthquake or an earthquake on any one of the active or potentially active faults in the greater San Francisco Bay Area. General Plan policies seek to ensure that the new structures are built with consideration of the four major hazards associated with earthquakes.

Surface Fault Rupture. Surface fault rupture, displacement at the earth’s surface resulting from fault movement, is typically observed close to or on the active fault trace. The Rodgers Creek Fault Zone extends beneath downtown and has the highest potential for significant fault rupture.

Ground Shaking. The City could be affected by strong ground shaking caused by a major earthquake during the next 30 years. Ground shaking can be described in terms of peak acceleration, peak velocity, and displacement of the ground. Areas that are

underlain by bedrock tend to experience less ground shaking than those underlain by unconsolidated sediments such as artificial fill. Ground shaking may affect areas hundreds of miles away from the earthquake's epicenter.

Liquefaction and Ground Failure. Liquefaction is the process by which water-saturated soil materials lose strength and fail during strong seismic ground shaking. The shaking causes the pore-water pressure in the soil to increase, thus transforming the soil from a solid to a liquid. Liquefaction has been responsible for ground failures during almost all of California's great earthquakes.

Earthquake-Induced Landslides. Seismically induced landsliding is typical of upland areas with slopes greater than 25%. Earthquake groundshaking can trigger slope movements such as earth flows and rotational landslides, or dislodge fractured bedrock material resulting in a rockfall.

Flood. Flooding hazards may be considered in two categories: natural flooding and dam inundation.

Natural Flooding. Natural flooding hazards are those associated with major rainfall events, which result in the flooding of developed areas due to overflows of nearby waterways, or inadequacies in local storm drain facilities. In the City, most of the annual precipitation falls between the months of November and April. FEMA has identified a 100-year flood zone, approximately 7 square blocks in area, at the confluence of Spring Creek and Matanzas Creek in Santa Rosa. Major creeks in the City have the potential to cause flooding during a large storm event. In the northern part of the City, the number and geographic distribution of creeks, combined with favorable topography creates a condition in which flooding risks are expected to be minimal. In the southern part of the City, drainage conditions are less favorable due to flat topography and the limited number of drainageways (creeks and conduits) that are available for storm water disposal. Currently, the majority of collected storm water in the southern part of the City is channeled into Colgan and Roseland creeks. Limited capacity and concentrated discharge place these creeks at the greatest risk of flooding during a 100-year storm event. Drainage improvements to both creeks will be necessary to minimize flooding risks in the future.

Dam inundation. Dam inundation hazards are those associated with the downstream inundation that would occur given a major structural failure in a nearby reservoir. A major earthquake could potentially cause damage or failure to a dam structure, and cause localized flooding. Although dam failure is unlikely due to current state regulations for design, maintenance, and monitoring of dams, the City is exposed to the hazard of inundation from failure of local dams such as Lake Ralphine and Spring Lake. Improvements to the storm drain system consistent with expansion or intensification of urban development is essential to protecting the City from flooding hazards.

Wildfire. Hillside residential neighborhoods located in the northern and eastern portions of the City are subject to risk of wildland fire. Open areas and slopes covered with tall grasses and/or chaparral provide fuels to feed wildfires, once started. Fire-resistant building materials and landscaping contribute to prevention of damage to residences in case of a wildfire. General Plan policies requiring adequate fire flows and community fire breaks in residential subdivisions also minimize potential for fire damage. In October 2017, the Tubbs Fire, which was the then-most destructive wildfire in California's recorded history, destroyed approximately 3,000 properties in the City, approximately 2,800 of which were residential properties.

Drought. In recent years, the State of California experienced a significant drought that resulted in severe impacts to California's water supplies and its ability to meet all the demands for water in the State. The City cannot predict if and when drought conditions may return or what effect drought conditions may have on the revenues of the Water System.

Loss of Tax-Exemption and Other Tax-Related Matters

As discussed under the caption "TAX MATTERS," interest on the 2018 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2018 Bonds were issued, as a result of future acts or omissions of the City in violation of its covenants in the Indenture. Should such an event of taxability occur, the 2018 Bonds are not subject to special redemption and will remain outstanding until maturity or until redeemed under other provisions set forth in the Indenture. In addition, no assurance can be given that the market price for the 2018 Bonds will not be affected by any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the 2018 Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the 2018 Bonds or obligations that present similar tax issues as the 2018 Bonds.

Changes in Law

No assurance can be given that the market price for the 2018 Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code of 1986, as amended (the "**Tax Code**")), or changes in interpretation of the Tax Code.

Articles XIII C and XIII D of the California Constitution

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act." Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26's amendments to Article XIII C broadly define "tax," but specifically exclude, among other things:

- (1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed

- the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
 - (3) A charge imposed as a condition of property development.
 - (4) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

Property-Related Fees and Charges. Under Article XIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Initiative Power. In addition, Article XIIC states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

Judicial Interpretation of Articles XIIC and XIID. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General’s opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three subsequent court cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIID under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal.4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before

imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal.4th 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of assets, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

In August 2013, an Orange County Superior Court judge ruled that the tiered pricing model of the City of San Juan Capistrano, which charges higher rates to customers who use more water, violates Proposition 218. The City of San Juan Capistrano appealed the decision, to the 4th District Court of Appeal, which published its decision on April 20, 2015. The court's decision found that the City of San Juan Capistrano's tiered rates were not sufficiently cost-justified, but that the Constitution does allow for tiered rates. In July 2015, the California Supreme Court denied a request to depublish the case.

The City believes that its rate structure is distinguishable from the structure deemed unconstitutional in the San Juan Capistrano case and consistent with Proposition 218 and the Constitution because the City's tiered rates correlate with the actual costs for the various tiers. Following the San Juan Capistrano case, the City updated and slightly revised the structure of its water and sewer rates, which is based on the costs of service and thus consistent with the requirements addressed in the case.

Articles XIIC and XIID and the City's Wastewater Rates and Charges. The City's current water rates (see "THE WATER SYSTEM – Rates and Charges") were adopted by resolution of the City Council on December 1, 2015, following notice to property owners and a public hearing held at least 45 days after the notice had been mailed, in compliance with Articles XIIC and XIID.

Further, the City believes its water rates and charges do not constitute "taxes" under Article XIIC as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIIC, they are "property-related fees imposed in accordance with the provisions of Article XIID" (and

are also charges for a “property-related service” as defined in subsection 2(g) of Article XIID) and because, as described in subsection 1(e)(2) of Article XIIC, they are charged for water service, “a specific government service or product provided directly to the payor that is not provided to those not charged.”

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City’s rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for water services, or to call into question previously adopted water services rate increases.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2018 Bonds or, if a secondary market exists, that any 2018 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue 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.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2018 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Tax Code relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2018 Bonds. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2018 Bonds.

If the initial offering price to the public at which a 2018 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a 2018 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium are disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2018 Bonds on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2018 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2018 Bonds. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2018 Bonds who purchase the 2018 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2018 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2018 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2018 Bonds under federal individual alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2018 Bond (said term being the shorter of the 2018 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2018 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2018 Bond is amortized each year over the term to maturity of the 2018 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2018 Bond premium is not deductible for federal income tax purposes. Owners of

premium 2018 Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2018 Bonds.

In the further opinion of Bond Counsel, interest on the 2018 Bonds is exempt from California personal income taxes.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2018 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 legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2018 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2018 Bonds, or as to the consequences of owning or receiving interest on the 2018 Bonds, as of any future date. Prospective purchasers of the 2018 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.

General. Owners of the 2018 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2018 Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2018 Bonds, the ownership, sale or disposition of the 2018 Bonds, or the amount, accrual or receipt of interest on the 2018 Bonds.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will render its opinion approving the validity of the 2018 Bonds, the form of which opinion is set forth in APPENDIX E hereto. Copies of such approving opinion will be provided to the original purchasers upon delivery of the 2018 Bonds. Jones Hall, A Professional Law Corporation, San Francisco, California is also acting as Disclosure Counsel to the City.

Certain matters will be passed upon for the City by the City Attorney.

NO LITIGATION

In connection with issuance of the 2018 Bonds, the City will certify that there is no litigation pending or, to the City's knowledge, threatened in any way to restrain or enjoin the issuance, execution or delivery of the 2018 Bonds, to contest the validity of the 2018 Bonds, the Indenture or any proceedings of the City with respect thereto.

Also in connection with issuance of the 2018 Bonds, the City will certify that there are no lawsuits or claims pending against the City that will materially affect the City's finances so as to impair the ability to pay principal of and interest on the 2018 Bonds when due.

See "RISK FACTORS – Articles XIIC and XIID of the California Constitution" for a summary of pending litigation relating to the City's wastewater rates, which the City believes will not materially adversely affect its revenues from the Water System.

FINANCIAL STATEMENTS

Macias Gini & O'Connell LLP (the "**Auditor**") audited the financial statements of the City for the fiscal year ended June 30, 2017. The Auditor's examination was made in accordance with generally accepted auditing standards and Governmental Auditing Standards, issued by the Comptroller General of the United States. See "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2017."

The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City.

RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC has assigned the municipal bond rating shown on the front cover of this Official Statement.

The rating reflects only the view of the assigning rating agency, and an explanation of the significance of the rating, and any outlook assigned to or associated with the rating, should be obtained from such rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement).

There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely by the assigning rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating on the 2018 Bonds may have an adverse effect on the market price or marketability of the 2018 Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the 2018 Bonds to provide certain financial information and operating data relating to the City and the Water System by not later than nine months after the end of the City's fiscal year, or March 31, of each year (based on the City's current fiscal year-end of June 30), commencing March 31, 2019, with the report for the

2017-18 fiscal year (the “**Annual Report**”) and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “**Rule**”). The specific nature of the information to be contained in the Annual Report or the notices of listed events by the City is set forth in “APPENDIX C – Form of Continuing Disclosure Certificate.”

[TO BE UPDATED] [In the past five years, the City and its related entities failed to comply in all material respects with its continuing disclosure undertakings in the following instances:

- On at least nine occasions, the City and its related entities failed to file audited financial statements on a timely basis or all required financial and operating data on a timely basis;
- For certain issuances outstanding in the past five years, the City and its related entities failed to file notice of several changes in underlying ratings and insured ratings on a timely basis; and
- On at least one occasion, the City failed to file a notice of redemption on a timely basis.

In addition to the above, certain audited financial statements and annual reports of financial and operating data were posted on emma.msrb.org, in connection with certain tax allocation bonds of the now-dissolved Redevelopment Agency of the City of Santa Rosa, with incorrect hyperlink labels. Furthermore, certain annual reports of financial and operating data were posted on emma.msrb.org with titles reflecting the fiscal year in which the reports were filed instead of the fiscal year for the applicable reporting period. Each of these reports has been re-posted with correct hyperlink labels and cover pages to correctly indicate the reporting period reflected in the report, as applicable. The City has retained Fraser & Associates to provide continuing disclosure services related to bond issuances of the Successor Agency to the Redevelopment Agency of the City of Santa Rosa.]

In March 2014, the Securities and Exchange Commission (the “**SEC**”) announced the Municipalities Continuing Disclosure Cooperation Initiative (the “**MCDC Initiative**”) with the intent of addressing violations of anti-fraud provisions of federal and securities laws. Under the MCDC Initiative, issuers and underwriters who self-report possible violations of the Rule regarding materially inaccurate statements relating to prior compliance with continuing disclosure undertakings under the Rule may be required to enter into a settlement agreement with the SEC reflecting terms specified in the MCDC Initiative.

The City filed a report under the MCDC Initiative relating to the City’s \$8,490,000 original aggregate principal amount of Limited Obligation Refunding Improvement Bonds City of Santa Rosa Fountaingrove Parkway Extension Assessment District (Reassessment and Refunding of 2011), Series 2011A (the “**2011 Improvement Bonds**”) and the disclosure in the official statement for the 2011 Improvement Bonds regarding the City’s compliance with its continuing disclosure obligations. The City has not received a request from the SEC to enter into a settlement agreement under the MCDC Initiative in response to the City’s report.

The City and its related entities have made all required remedial filings prior to issuance of the 2018 Bonds, and the City believes it has established procedures to ensure material

compliance with its continuing disclosure undertakings in the future. These procedures include maintaining a Master Schedule of Annual Continuing Disclosure due dates for each debt issuance and assigning additional trainings for staff and oversight responsibilities. In addition, the City Council "Statement of Debt Management and Disclosure Policy" was updated on February 10, 2015, to include a section on Initial and Continuing Disclosure Compliance.

UNDERWRITING

The 2018 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter").

The Underwriter has agreed to purchase the 2018 Bonds at a price equal to \$_____, which equals the par amount of the 2018 Bonds (\$_____), less an Underwriter's discount of \$_____, [plus][less] a [net] original issue [premium][discount] of \$_____. The bond purchase agreement between the City and the Underwriter provides that the Underwriter will purchase all of the 2018 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions.

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC as its Municipal Advisor (the "**Municipal Advisor**") in connection with the authorization and delivery of the 2018 Bonds. The Municipal Advisor assumes no responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 2018 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

EXECUTION

The execution and delivery of this Official Statement have been authorized by the City Council of the City.

CITY OF SANTA ROSA

By: _____
Chief Financial Officer

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX B

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

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
City of Santa Rosa
Refunding Water Revenue Bonds, Series 2018

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the City of Santa Rosa (the “**City**”) in connection with the issuance of its \$_____ Refunding Water Revenue Bonds, Series 2018 (the “**2018 Bonds**”). The 2018 Bonds are being issued pursuant to that certain Indenture of Trust, dated as of _____ 1, 2018 (the “**Indenture**”) by and between the City and Zions Bancorporation, National Association, as trustee (the “**Trustee**”). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the 2018 Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Rule.

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

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4.

“*Annual Report Date*” means the date that is nine months after the end of the City’s fiscal year (currently March 31 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means initially the City, or any successor Dissemination Agent designated in writing by the City and that has filed with the City a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a).

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement dated _____, 2018, executed by the City in connection with the issuance of the 2018 Bonds.

“*Participating Underwriter*” means Stifel, Nicolaus & Company, Incorporated, as the original underwriter of the 2018 Bonds required to comply with the Rule in connection with offering of the 2018 Bonds.

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

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2019, with the report for the 2017-18 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the 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). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall in a timely manner provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) Audited Financial Statements of the City prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing the following information for the most recently completed fiscal year:

- (i) Principal amount of Bonds and any Parity Bonds and State Loans outstanding.
- (ii) Balance in the Rate Stabilization Fund.
- (iii) Updated information set forth in the following tables of the Official Statement (in all cases, information for only the preceding fiscal year is required):
 - a. Table 3 (City Customer Accounts by Meter Size)
 - b. Table 4 (Top 10 Water Customers in City). The City is not obligated to disclose the identity of the users.
 - c. Table 9 (Typical Monthly Water Charges for Single-Family User)
 - d. Table 14 (Historical and Projected Revenues, Expenses and Debt Service Coverage); provided, that the update will be for provide information for the most recently completed fiscal year only.
- (iv) Status of any significant legislative, administrative and judicial challenges to the construction and operation of the Water System known to the City.

(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.

(d) 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 are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the 2018 Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.

- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the City determines that knowledge of the occurrence of that Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected 2018 Bonds under the Indenture.

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

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2018 Bonds. If such termination occurs prior to the final maturity of the 2018 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (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, or change in the identity, nature, or status of an obligated person with respect to the 2018 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2018 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the 2018 Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 2018 Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(b).

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

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the 2018 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent (if other than the City), the Participating Underwriter and the holders and beneficial owners from time to time of the 2018 Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2018

CITY OF SANTA ROSA

By _____
Chief Financial Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Santa Rosa

Name of Issue: \$_____ City of Santa Rosa Refunding Water Revenue Bonds, Series
2018

Date of Issuance: _____, 2018

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

Dated:_____

[DISSEMINATION AGENT]

By_____
Name:
Title:

Cc: Trustee and Participating Underwriter

APPENDIX D

GENERAL DEMOGRAPHIC INFORMATION REGARDING THE CITY OF SANTA ROSA AND SONOMA COUNTY

The following information concerning the City of Santa Rosa (the “City”) and Sonoma County (the “County”) is included only for the purpose of supplying general information regarding the area of the City. The 2018 Bonds are not a debt of the City, the County, the State of California (the “State”) or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

General

The City. The City is located in the central portion of the County, covers an area of about 35 square miles. The City is centered at the crossroads of U.S. Highway 101 and State Route 12. Incorporated in 1868, the City became a charter city in 1872. The City operates under the council-manager form of government, with a City Council comprised of seven members elected at large to serve overlapping four-year terms. The City Council, which acts as the City's legislative and policy-making body, also selects the City Manager. As the City's chief administrator, the City Manager is responsible for implementing the policies established by the City Council.

The County. One of California's original 27 counties (incorporated in 1850), the County is the northernmost of the nine greater San Francisco Bay Area counties. Bordered on the north and east by Mendocino, Lake, and Napa counties and to the west and south by the Pacific Ocean, Marin County, and San Pablo Bay, its area encompasses 1,598 square miles. Varied terrain in the County includes Pacific coastline, the Russian River, vineyards, and old growth redwoods. The County is the original home of wine production in northern California and still the largest producer of quality wine.

Geographically, the County is divided almost equally into mountainous regions, rolling hills and valley land. Three narrow valleys, separated by mountains, run northwest to southeast. Elevations range from sea level to 4,262 feet at Mt. Saint Helena, where Sonoma, Napa, and Lake counties converge.

Population

The historic population estimates of the towns and cities that are in the County, as of January 1 of the past five years are shown in the following table.

SONOMA COUNTY
Population Estimates
Years 2014 through 2018, as of January 1

<u>Area</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Cloverdale	8,774	8,893	8,927	8,988	9,134
Cotati	7,320	7,371	7,376	7,453	7,716
Healdsburg	11,540	11,707	11,734	11,757	12,061
Petaluma	60,076	60,953	61,488	61,657	62,708
Rohnert Park	41,689	42,325	42,586	42,490	43,598
Santa Rosa	173,611	175,693	176,937	178,064	178,488
Sebastopol	7,521	7,593	7,609	7,624	7,786
Sonoma	10,785	10,906	10,929	11,072	11,390
Windsor	27,077	27,364	27,445	27,492	28,060
Unincorporated	147,471	147,278	147,444	148,016	142,391
County Total	495,864	500,083	502,475	504,613	503,332

Source: California State Department of Finance, Demographic Research Unit.

[Remainder of page intentionally left blank.]

Employment and Industry

The City is included in the Santa Rosa Metropolitan Statistical Area (“**MSA**”), which consists of the County. The unemployment rate in the Sonoma County was 2.4 percent in May 2018, down from a revised 2.6 percent in April 2018, and below the year-ago estimate of 3.0 percent. This compares with an unadjusted unemployment rate of 3.7 percent for California and 3.6 percent for the nation during the same period.

The following table shows the average annual estimated numbers by industry comprising the civilian labor force, as well as unemployment information for years 2013 through 2017.

**SANTA ROSA MSA
(Sonoma County)
Annual Average Civilian Labor Force, Employment and Unemployment,
Employment by Industry
(March 2017 Benchmark)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Civilian Labor Force ⁽¹⁾	250,500	257,600	260,300	260,100	262,900
Employment	232,800	243,200	248,700	249,800	254,000
Unemployment	17,700	14,400	11,700	10,400	8,900
Unemployment Rate	7.1%	5.6%	4.5%	4.0%	3.4%
<u>Wage and Salary Employment ⁽²⁾</u>					
Agriculture	6,300	6,1000	6,000	6,100	6,300
Mining and Logging	200	300	200	200	200
Construction	9,900	10,500	11,500	12,400	13,100
Manufacturing	20,100	20,700	21,800	22,700	23,100
Wholesale Trade	7,400	7,5000	7,500	7,700	7,600
Retail Trade	23,700	24,300	24,600	25,000	25,300
Transportation, Warehousing and Utilities	4,100	4,300	4,300	4,200	4,000
Information	2,600	2,700	2,700	2,700	2,700
Finance and Insurance	4,700	4,800	4,900	5,200	5,100
Professional and Business Services	19,300	20,100	20,700	20,700	21,500
Educational and Health Services	27,900	32,100	32,200	33,000	34,300
Leisure and Hospitality	22,800	23,800	24,600	25,300	25,700
Other Services	6,600	6,8000	7,000	7,200	7,300
Federal Government	1,400	1,300	1,300	1,300	1,400
State Government	4,600	5,000	5,100	5,000	4,800
Local Government	22,900	24,900	25,400	26,000	26,500
Total, All Industries ⁽³⁾	187,100	197,100	202,900	207,800	212,100

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

The City's largest employers are set forth in the table below.

CITY OF SANTA ROSA Largest Employers (As of June 30, 2017)

Employer	Employees	Percentage of Total City Employment
County of Sonoma	3,894	4.38%
Kaiser Permanente	2,640	2.97
Santa Rosa School District	1,657	1.86
Santa Rosa Junior College	1,644	1.85
St. Joseph Health System	1,640	1.84
Keysight/Agilent Technologies	1,275	1.43
City of Santa Rosa	1,268	1.42
Medtronic/Arterial Vascular Eng	1,000	1.12
Sutter Medical Center of Santa Rosa	936	1.05
Amy's Kitchen	890	1.00
Total	16,844	18.93%

Source: City of Santa Rosa, Comprehensive Annual Financial Report for Fiscal Year 2016-17.

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Major Employers

The County's major employers are set forth below, in alphabetical order.

SONOMA COUNTY Major Employers As of July 2018

Employer Name	Location	Industry
Aabalat Fine & Rare Wines	Petaluma	Wines-Wholesale
Amy's Kitchen Inc	Santa Rosa	Frozen Food Processors (mfrs)
Army National Guard Recruiter	Santa Rosa	Government Offices - State
Calix Inc	Petaluma	Communications Services NEC
Enphase Energy Inc	Petaluma	Semiconductors & Related Devices (mfrs)
Ferrellgas	Guerneville	Gas-Propane-Refilling Stations
First Security Svc	Rohnert Park	Security Guard & Patrol Service
Flex Products	Santa Rosa	Coatings-Vacuum Deposition (mfrs)
Ghilotti Construction Co	Santa Rosa	Excavating Contractors
Kaiser Permanente Medl Ctr	Santa Rosa	Medical Centers
Korbel Champagne Cellars	Guerneville	Wineries (mfrs)
Medtronic Cardiovascular	Santa Rosa	Physicians & Surgeons Equip & Supls-Mfrs
Petaluma City PassportsI	Petaluma	Government Offices-City, Village & Twp
Petaluma Valley Hospitals	Petaluma	Hospitals
Protransport-1 LLC	Cotati	Transportation Services
Santa Rosa Memorial Hospital	Santa Rosa	Hospitals
Santa Rosa Police Dept	Santa Rosa	Police Departments
Sante At the Farimont Sonoma	Sonoma	Hotels & Motels
Sonoma County Sheriff	Santa Rosa	Government Offices-County
Sonoma Developmental Center	Eldridge	Hospitals
Sonoma Valley Hospital	Sonoma	Hospitals
Sutter Santa Rosa Regl Hosp	Santa Rosa	Hospitals
US Coast Guard	Petaluma	Federal Government-National Security
Walmart	Windsor	Department Stores

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2018 2nd Edition.

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Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2013 through 2017.

CITY OF SANTA ROSA, SONOMA COUNTY, STATE OF CALIFORNIA AND UNITED STATES Effective Buying Income 2013 through 2017

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2013	City of Santa Rosa	\$4,139,593	\$49,267
	Sonoma County	12,795,860	51,899
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Santa Rosa	\$4,339,873	\$50,465
	Sonoma County	13,365,133	53,069
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Santa Rosa	\$4,565,210	\$52,843
	Sonoma County	14,241,130	56,067
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Santa Rosa	\$4,937,452	\$56,521
	Sonoma County	15,518,066	60,353
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2017	City of Santa Rosa	\$5,144,498	\$58,681
	Sonoma County	16,179,391	62,413
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,736

Source: The Nielsen Company (US), Inc.

Commercial Activity

Summaries of historic taxable sales within the City and the County during the past five years in which data is available are shown in the following tables. Annual figures are not yet available for calendar years 2017 or 2018.

Total taxable sales during the calendar year 2016 in the City were reported to be \$3,213,648,047, a 2.05% increase over the total taxable sales of \$3,147,614,673 reported during the calendar year 2015.

CITY OF SANTA ROSA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Numbers of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2012	3,152	\$2,274,177	4,837	\$2,744,427
2013	3,405	2,401,094	5,119	2,907,024
2014	3,498	2,540,708	5,250	3,073,610
2015	3,308	2,579,495	5,699	3,147,615
2016	3,393	2,675,876	5,859	3,213,648

Source: State of California, Board of Equalization.

Total taxable sales during the calendar year 2016 in the County were reported to be \$9,002,535,533, a 3.31% increase over the total taxable sales of \$8,704,968,650 reported during the calendar year 2015.

SONOMA COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Numbers of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2012	11,105	\$5,228,062	17,311	\$7,382,997
2013	11,757	5,618,188	17,998	8,017,883
2014	11,881	5,931,984	18,179	8,467,551
2015	8,699	6,104,395	19,916	8,704,969
2016	11,318	6,348,476	20,378	9,002,535

Source: State of California, Board of Equalization.

Construction Activity

The following tables show a five-year summary of the valuation of building permits issued in the City and the County.

CITY OF SANTA ROSA Total Building Permit Valuations (Figures in Thousands) 2013 through 2017

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Permit Valuation</u>					
New Single-family	\$30,912.3	\$38,616.3	\$25,397.3	\$29,331.7	\$58,523.7
New Multi-family	43,091.6	6,475.3	2,475.2	12,671.8	11,537.1
Res. Alterations/Additions	<u>15,752.1</u>	<u>17,349.9</u>	<u>26,601.6</u>	<u>20,405.5</u>	<u>28,614.2</u>
Total Residential	89,756.0	62,441.5	54,474.1	62,389.0	98,675.0
New Commercial	21,853.7	10,726.1	16,748.9	20,191.4	13,039.4
New Industrial	0.0	0.0	0.0	156.4	0.0
New Other	0.0	1,911.5	5,247.4	5,572.7	9,174.4
Com. Alterations/Additions	<u>18,597.4</u>	<u>29,499.3</u>	<u>43,025.5</u>	<u>24,201.2</u>	<u>44,712.4</u>
Total Nonresidential	40,451.1	42,136.9	65,021.8	50,121.7	66,926.2
<u>New Dwelling Units</u>					
Single Family	125	186	96	108	240
Multiple Family	<u>359</u>	<u>64</u>	26	<u>142</u>	100
TOTAL	484	250	122	250	340

Source: Construction Industry Research Board, Building Permit Summary.

SONOMA COUNTY Total Building Permit Valuations (Figures in Thousands) 2013 through 2017

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Permit Valuation</u>					
New Single-family	\$91,419.1	\$69,788.4	\$65,968.4	\$112,941.1	\$202,169.1
New Multi-family	51,210.7	91,806.3	27,797.3	26,149.2	46,674.0
Res. Alterations/Additions	<u>59,124.5</u>	<u>64,228.0</u>	78,005.1	<u>71,079.1</u>	<u>97,326.9</u>
Total Residential	201,754.3	225,822.7	171,770.8	210,169.4	346,170.0
New Commercial	60,889.7	55,718.9	53,975.7	93,462.5	79,737.8
New Industrial	0.0	0.0	2,484.9	156.4	759.6
New Other	9,776.3	8,657.2	16,513.5	19,225.1	25,572.7
Com. Alterations/Additions	<u>55,293.2</u>	<u>70,889.7</u>	<u>84,641.9</u>	<u>79,943.7</u>	<u>99,102.9</u>
Total Nonresidential	125,959.2	135,265.8	157,616	192,767.7	205,173.0
<u>New Dwelling Units</u>					
Single Family	295	292	236	560	881
Multiple Family	<u>732</u>	<u>214</u>	206	<u>264</u>	351
TOTAL	1,027	506	442	824	1,232

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

All modes of commercial transportation are available in the County. The Petaluma River is capable of handling water barge freight from the San Francisco Bay to Petaluma. Northwestern Pacific Railroad provides rail transportation with the County with connections to major rail interchanges. The Sonoma County Airport, located just outside the City of Santa Rosa, handles commercial and private air traffic, with Horizon-Alaska Airlines providing regional air transportation. Seven private airfields serve the County as well. In addition, highways bisect the County; the major freeway is U.S. Highway 101, which runs north-south. State Highway 12 is the major east-west thoroughfare.

Education

The County is divided into 40 school districts for kindergarten through twelfth-grade (K-12) educational services. There are 31 elementary, 3 high school, and 6 unified districts. Unified districts operate both elementary and secondary schools for the students residing within their boundaries.

Although many districts are small in size, 70,932 students attend the 181 public schools that are located in Sonoma County. There are 108 elementary, 23 middle/junior high, and 19 high schools, as well as 24 alternative schools and 7 independent study schools. Fifty-six of Sonoma County's public schools are charter schools. Seventy-nine schools have been named California Distinguished Schools and ten have been recognized as National Blue Ribbon Schools.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC 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 the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities 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 Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

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

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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.

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

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.