

NEW ISSUE—FULL BOOK ENTRY

RATING:
S&P: "AA+"
See "RATING" herein

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to compliance by the Authority and the City with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

\$14,715,000
City of Alameda Financing Authority
(Alameda County, California)
Sewer Revenue Bonds, 2012 Series A

Dated: Date of Delivery

Due: August 1, as shown below

The \$14,715,000 City of Alameda Financing Authority Sewer Revenue Bonds, 2012 Series A (the "Bonds"), will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased but will receive a credit balance in the records of DTC. Principal of and interest on the Bonds are payable directly to DTC by The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as trustee (the "Trustee"). Principal is payable on the dates set forth below. Interest is payable semiannually on each February 1 and August 1, commencing February 1, 2013. Upon receipt of payments of principal of, premium, if any, and interest on the Bonds, DTC is obligated in turn to remit such principal, premium, if any, and interest to the DTC Participants (as defined herein) for subsequent disbursement to purchasers of the Bonds, as described herein.

The Bonds are subject to redemption prior to maturity. See "THE BONDS—Redemption" herein.

The Bonds are special obligations of the City of Alameda Financing Authority (the "Authority") payable from the revenues pledged under the Indenture of Trust, dated as of October 1, 2012, by and between the Authority and the Trustee, consisting primarily of installment payments (the "Installment Payments") to be made by the City of Alameda (the "City") under an installment sale agreement, dated as of October 1, 2012, by and between the Authority and the City (the "Installment Sale Agreement"). The Installment Payments are secured by a pledge of and lien on the net revenues of the City's municipal sewer enterprise. The Bonds are being issued to (a) refinance the acquisition and construction of certain improvements and facilities which constitute part of the City's municipal sewer enterprise (the "Sewer System") and, in particular, to provide for the refunding of the City's Certificates of Participation (1995 Sewer System Refinancing and Improvement Project), originally delivered in the principal amount of \$5,850,000, of which \$2,160,000 is currently outstanding, (b) finance the acquisition and construction of certain new improvements and facilities which will constitute part of the Sewer System; (c) fund a reserve fund for the Bonds, and (d) pay the costs of issuance of the Bonds.

Neither the Bonds nor the obligation of the City to make Installment Payments constitutes an obligation of the City or the Authority for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Authority has no taxing power. Neither the Bonds nor the obligation of the City to make Installment Payments under the Installment Sale Agreement constitutes a debt of the City, the County of Alameda, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

SEE THE INSIDE COVER

The Bonds were sold by competitive bidding on October 3, 2012, to Hutchinson Shockey Erley & Co. at a true interest rate of 3.023688%.

This cover page contains information for general reference only. It is not a summary of this issue. Potential purchasers of the Bonds are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval of legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by Quint & Thimmig LLP, San Francisco, California, Disclosure Counsel and by the City Attorney. It is expected that the Bonds, in book-entry form, will be available for delivery on or about October 17, 2012.

Dated: October 3, 2012

\$14,715,000
City of Alameda Financing Authority
(Alameda County, California)
Sewer Revenue Bonds, 2012 Series A

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

\$4,165,000 Series Bonds

CUSIP† Prefix: 010782

<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP†</u> <u>Suffix</u>
2013	<u>\$250,000</u>	<u>3.000%</u>	<u>0.200%</u>	<u>AA8</u>
2014	<u>275,000</u>	<u>4.000</u>	<u>0.300</u>	<u>AB6</u>
2015	<u>285,000</u>	<u>2.000</u>	<u>0.400</u>	<u>AC4</u>
2016	<u>290,000</u>	<u>4.000</u>	<u>0.500</u>	<u>AD2</u>
2017	<u>300,000</u>	<u>4.000</u>	<u>0.650</u>	<u>AE0</u>
2018	<u>315,000</u>	<u>4.000</u>	<u>0.850</u>	<u>AF7</u>
2019	<u>375,000</u>	<u>4.000</u>	<u>1.100</u>	<u>AG5</u>
2020	<u>390,000</u>	<u>4.000</u>	<u>1.400</u>	<u>AH3</u>
2021	<u>400,000</u>	<u>3.000</u>	<u>1.620</u>	<u>AI9</u>
2022	<u>415,000</u>	<u>4.000</u>	<u>1.850</u>	<u>AK6</u>
2023	<u>430,000</u>	<u>2.000</u>	<u>2.000</u>	<u>AL4</u>
2024	<u>440,000</u>	<u>2.250</u>	<u>2.300</u>	<u>AM2</u>

\$1,395,000 3.000% Term Bonds maturing August 1, 2027; Price: 104.050%^c, to yield 2.530%; CUSIP† 010782 AN0

\$995,000 2.750% Term Bonds maturing August 1, 2029; Price: 98.276%^c, to yield 2.880%; CUSIP† 010782 AP5

\$2,175,000 3.000% Term Bonds maturing August 1, 2033; Price: 100.000%^c; CUSIP† 010782 AQ3

\$1,810,000 3.000% Term Bonds maturing August 1, 2036; Price: 97.992%^c, to yield 3.120%; CUSIP† 010782 AR1

\$1,985,000 3.125% Term Bonds maturing August 1, 2039; Price: 97.248%^c, to yield 3.280%; CUSIP† 010782 AS9

\$2,190,000 3.250% Term Bonds maturing August 1, 2042; Price: 97.200%^c, to yield 3.40%; CUSIP† 010782 AT7

^c Priced to the August 1, 2022, par call date.

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been furnished by the Authority and the City and from other sources which are believed to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or any other parties described herein since the date hereof.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. 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. No assurance is given that actual results will meet the City's forecasts in any way, regardless of the level of optimism communicated in the information. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See "CONTINUING DISCLOSURE" herein.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT SUCH LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANYTIME.

The execution, sale and delivery of the Bonds has not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

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

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CITY OF ALAMEDA FINANCING AUTHORITY

CITY OF ALAMEDA, CALIFORNIA

2263 Santa Clara Avenue
Alameda, CA 94501
(510) 747-7400
<http://www.cityofalamedaca.gov/>

Authority Board/City Council

Marie Gilmore, *Chair/Mayor*
Robert Bonta, *Vice Chair/Mayor Pro Tem*
Doug deHaan, *Boardmember/Councilmember*
Beverly Johnson, *Boardmember/Councilmember*
Lena Tam, *Boardmember/Councilmember*

Authority/City Staff and Officials

John A. Russo, *Executive Director/City Manager*
Lisa Goldman, *Assistant Executive Director/Assistant City Manager*
Lara Weisiger, *Secretary/City Clerk*
Fred Marsh, *Controller*
Matthew Naclerio, *Director of Public Works*
Barbara Hawkins, *City Engineer*
Janet Kern, *Authority Counsel/City Attorney*

Special Services

Public Financial Management, Inc.
San Francisco, California
Financial Advisor

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California
Trustee and Escrow Bank

Quint & Thimmig LLP
San Francisco, California
Bond Counsel and Disclosure Counsel



Albany

Berkeley

Treasure Island

Bay Bridge

580

80

Emeryville

13

880

24

OAKLAND

980

SAN FRANCISCO

Alameda Point

580

3rd

ALAMEDA

61

Bay Farm Island

61

Oakland Int'l Airport

880

San Leandro

San Francisco Bay

\$14,715,000
CITY OF ALAMEDA FINANCING AUTHORITY
(Alameda County, California)
Sewer Revenue Bonds, 2012 Series A

INTRODUCTION

General

The purpose of this Official Statement is to provide certain information concerning the issuance, sale and delivery by the City of Alameda Financing Authority, a joint exercise of powers authority organized and existing under the laws of the State of California (the "Authority"), of its City of Alameda Financing Authority (Alameda County, California) Sewer Revenue Bonds, 2012 Series A (the "Bonds"), in the aggregate principal amount of \$14,715,000. The Bonds are special obligations of the Authority payable from the revenues (the "Revenues") pledged under an indenture of trust, dated as of October 1, 2012 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), consisting primarily of installment payments (the "Installment Payments") to be made by the City of Alameda (the "City") under an installment sale agreement, dated as of October 1, 2012 (the "Installment Sale Agreement"), by and between the Authority and the City, as the purchase price for certain improvements (the "Project") to the City's municipal sewer enterprise (the "Sewer System"). The Installment Payments are secured by a pledge of and lien on the net revenues of the Sewer System.

Capitalized terms used, but not otherwise defined herein, shall have the meanings assigned thereto as set forth in APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Certain Definitions.

The Authority

The Authority is a California joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of July 31, 2012, by and between the City and the California Municipal Finance Authority to provide for the financing of public capital improvements by the City. See "THE AUTHORITY."

The City

The City is a chartered city, incorporated in 1854. The City encompasses approximately 9.5 square miles and is located in Alameda County (the "County") just west of the City of Oakland. The City consists of an island in the eastern portion of San Francisco Bay approximately six miles long by one and one-half miles wide and part of a peninsula adjacent to the Oakland Airport. The island portion is connected to the East Bay Area by three bridges and a vehicular underwater double barrel tube. The total City area is 22.7 square miles, about 12.4 square miles of which is water area. The City operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, appointed by the City Council. All municipal departments operate under the supervision of the City Manager. The City is a major marine recreational area for Northern California with seven marinas and a private seaport. See "THE CITY" and APPENDIX A—GENERAL INFORMATION ABOUT THE CITY OF ALAMEDA.

Alameda Point ("Alameda Point") is a portion of the former Alameda Naval Air Station occupying 860 acres. The area is bound by Main Street to the east, the Oakland

Estuary to the north, the Seaplane Lagoon on the south and former runways on the west. A new collection system and lift pumps are required as part of the development of the former Navy site. A single pump station with a capacity of 7.6 MGD transfers flows to a 20 inch EBMUD force main.

The Sewer System

The Sewer System is a collection system for the City's sanitary sewers and storm drains. The sewage collection and conveyance facilities include approximately 114 miles of main sewer lines and 26 pumping stations. The City does not operate and the Sewer System does not include a treatment facility. Alameda Point will be included in the City's sewer system by the end of 2012. The Navy is beginning transfers of the property at Alameda Point in December 2012 with subsequent conveyances anticipated in December 2014, December 2015 and December 2016. The Alameda Point sewage collection and conveyance facilities include approximately 28 miles of main sewer lines, 18 pumping stations and 510 laterals. See "THE SEWER SYSTEM."

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law"), the Indenture, a resolution of the governing body of the Authority adopted on September 4, 2012, and a resolution of the City Council of the City adopted on September 4, 2012.

Purpose of the Bonds

The Bonds are being issued to (a) refinance the acquisition and construction of certain improvements and facilities which constitute part of the Sewer System and, in particular, to provide for the refunding of the City's Certificates of Participation (1995 Sewer System Refinancing and Improvement Project) (the "1995 Certificates"), originally delivered in the principal amount of \$5,850,000, of which \$2,160,000 is currently outstanding, (b) finance the acquisition and construction of certain new improvements and facilities which will constitute part of the Sewer System (the "2012 Project"); (c) fund a reserve fund for the Bonds, and (d) pay the costs of issuance of the Bonds. See "THE FINANCING PLAN."

Security and Source of Repayment

In accordance with the Installment Sale Agreement, the City is required to make Installment Payments to the Trustee for the account of the Authority. The Installment Payments are designed to be sufficient, in both time and amount, to pay, when due, the principal of, and interest on the Bonds. The City is also required to make additional payments in the amount of any taxes, assessments, insurance premiums, expenses of the Authority and the Trustee incidental to the sale and delivery of the Bonds, administrative costs or charges of the Authority in connection with the Project and costs and expenses which the Authority may incur as a consequence of a default by the City. See APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Installment Sale Agreement.

The City's obligation to make the Installment Payments is a special obligation of the City payable solely from and secured by a pledge of and lien upon the Net Revenues of the Sewer System. Under no circumstances is the City required to advance any moneys derived from any source of income other than the Net Revenues nor are any other funds or property of the City liable for the payments of the Installment Payments.

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Maintenance and Operation Costs becoming payable during such period.

“Gross Revenues” means all user fee charges derived by the City from, the ownership and operation of the Sewer System, including but not limited to investment earnings thereon.

“Maintenance and Operation Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Sewer System, including but not limited to (a) costs of electricity and other forms of energy supplied to the Sewer System, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Sewer System in good repair and working order, (c) the reasonable administrative costs of the City attributable to the operation and maintenance of the Sewer System, and (d) the City’s obligations under (i) that certain Loan Contract No. 740-2965, by and between the State Water Resources Control Board and the City, dated as of March 30, 1987; (ii) that certain Loan Contract No. 5-818-550-0, by and between the State Water Resources Control Board and the City, dated as of February 8, 1996; (iii) that certain Loan Contract No. 7-818-550-0, by and between the State Water Resources Control Board and the City, dated as of March 10, 1998, as amended as of May 12, 1999; (iv) that certain Loan Contract No. 8-833-550-0, by and between the State Water Resources Control Board and the City, dated as of June 21, 1999; and (v) that certain Agreement No. 02-823-550-0, by and between the State Water Resources Control Board and the City, dated as of September 16, 2002; but in all cases excluding (i) debt service payable on all other obligations incurred by the City with respect to the Sewer System including but not limited to the Installment Payments and any Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

See “SECURITY FOR THE BONDS.”

Other than the 1995 Certificates to be refunded, there are no outstanding obligations secured by Net Revenues.

Reserve Account

A reserve account (the “Reserve Account”) will be established and held under the Indenture in order to secure the payment of principal of and interest on the Bonds in an amount, as of the Closing Date, equal to the Reserve Requirement. If, on any Interest Payment Date for the Bonds, the amounts on deposit under the Indenture to pay the principal of or interest due on the Bonds are insufficient therefor, the Trustee will draw on the Reserve Account to replenish the Interest Account, the Principal Account or the Sinking Account, in that order, to make up such deficiencies. See “SECURITY FOR THE BONDS—Reserve Account” and APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Indenture for additional information on the Reserve Account.

Redemption of the Bonds

The Bonds are subject to redemption prior to their stated maturity dates, as provided herein. See “THE BONDS—Redemption.”

Book-Entry Form

The Bonds will be delivered in fully registered form only and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds.

Ownership interests in the Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof, in book-entry form only. Principal, premium, if any, and interest are payable directly to DTC by the Trustee. Upon receipt of payments of principal of, premium, if any, and interest on the Bonds, DTC is obligated to remit such principal, premium, if any, and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry Only System” below and APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

Continuing Disclosure

The City will covenant, pursuant to a continuing disclosure certificate (the “Continuing Disclosure Certificate”) to be executed on the date of delivery of the Bonds, for the benefit of owners and beneficial owners of the Bonds, to provide certain financial information and operating data related to the Sewer System by not later than nine months following the end of the City’s Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and any notices of enumerated events is summarized below under the caption “CONTINUING DISCLOSURE.” The form of the Continuing Disclosure Certificate is set forth in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The covenants of the City in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to compliance by the Authority and the City with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See “TAX MATTERS.”

Professionals Involved in the Offering

The proceedings of the Authority and the City in connection with the issuance of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel, and by Janet Kern, Esq., Authority Counsel and City Attorney. The Bank of New York Mellon Trust Company, N.A., San Francisco, California, will act as the Trustee under the Indenture. Public Financial Management, Inc., San Francisco, California, is serving as financial advisor to the Authority and the City for the Bonds (the “Financial Advisor”). The fees of Bond Counsel, Disclosure Counsel, the Financial Advisor and the Trustee are contingent upon the sale and delivery of the Bonds.

Forward-Looking Statements

This Official Statement, and particularly the information contained under the headings entitled “PROJECT,” “THE SEWER SYSTEM,” “RISK FACTORS RELATING TO THE BONDS” and APPENDIX A—GENERAL INFORMATION ABOUT THE CITY OF ALAMEDA, contains statements relating to future results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 2000. When used in

this Official Statement, the words “estimate,” “forecast,” “intend,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See “RISK FACTORS RELATING TO THE BONDS” and “LIMITATIONS ON TAX REVENUES.”

Other Matters

There follows in this Official Statement brief descriptions of the Bonds, the security for the Bonds, the Indenture, the Authority, the City, the Sewer System, and certain other information relevant to the issuance of the Bonds. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all its respective terms and conditions. All statements herein with respect to such documents are qualified in their entirety by reference to each such document for the complete details of all of their respective terms and conditions. All statements herein with respect to certain rights and remedies are qualified by reference to laws and principles of equity relating to or affecting creditors’ rights generally. Copies of the Indenture are available for inspection during business hours at the corporate trust office of the Trustee.

The information and expressions of opinion herein speak only as of the date of this Official Statement and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

All financial and other information presented in this Official Statement has been provided by the Authority and the City from their records, except for information expressly attributed to other sources. The presentation of information, including the table of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the Authority or the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Other Information

This Official Statement speaks only as of its date and the information contained herein is subject to change without notice. Copies of the Indenture are available from the City upon written request to the City, 2263 Santa Clara Avenue, Alameda, CA 94501, Attention: Assistant City Manager. The City may impose a charge for copying, mailing and handling expenses related to any request for documents.

FINANCING PLAN

The Bonds are being issued to (a) provide for the refunding of the 1995 Certificates, originally (b) finance the 2012 Project; (c) fund a reserve fund for the Bonds, and (d) pay the costs of issuance of the Bonds.

Refunding of the 1995 Certificates

A portion of the proceeds of the Bonds will be used to defease the 1995 Certificates. The 1995 Certificates were delivered by the City to finance and refinance improvements to the Sewer System. Under terms of an escrow deposit and trust agreement, dated as of the date of delivery of the Bonds (the "Escrow Agreement"), by and between the City and The Bank of New York Mellon Trust Company, N.A., as escrow bank (the "Escrow Bank"), an escrow fund will be established. At closing, such proceeds, together with certain 1995 Certificates fund balances, will be held in cash in an amount sufficient to redeem the 1995 Certificates in full on November 16, 2012, at a redemption price equal to 100% of the principal amount thereof.

2012 Project

The 2012 Project includes the following improvements over the next three years:

Year 1 (2011-2012)

- 2.93 miles of main line repair
- Complete rehabilitation of one pump station
- Addition of generators, including all reliability and safety electrical upgrades to 5 PS

Year 2 (2012-2013)

- 2.91 miles of main line repair
- Addition of generators, including all reliability and safety electrical upgrades to 7 PS

Year 3 (2013-2014)

- 2.74 miles of main line repair
- Addition of generators, including all reliability and safety electrical upgrades to 10 PS

ESTIMATED SOURCES AND USES OF PROCEEDS

SOURCES

Par Amount of Bonds	<u>\$14,715,000.00</u>
Plus: Net Original Issue Premium	<u>332,442.80</u>
Plus: Released 1995 Certificates Reserve Fund	<u>426,360.00</u>
Total Sources	<u><u>\$15,473,802.80</u></u>

USES

Deposit to Escrow Fund ⁽¹⁾	<u>\$ 2,181,937.50</u>
Deposit to Project Fund ⁽²⁾	<u>12,118,669.42</u>
Deposit to Reserve Account ⁽³⁾	<u>779,537.50</u>
Costs of Issuance ⁽⁴⁾	<u>393,658.38</u>
Total Uses	<u><u>\$15,473,802.80</u></u>

⁽¹⁾ Represents the amount required to refund the 1995 Certificates. See "FINANCING PLAN—Refunding of the 1995 Certificates."

⁽²⁾ Represents the amount required to finance the 2012 Project. See "FINANCING PLAN—2012 Project."

⁽³⁾ Represents the Reserve Requirement for the Bonds.

⁽⁴⁾ Includes the Underwriter's discount, legal and financing costs, printing costs, fees of rating agencies, initial fees of the Trustee and other costs related to the issuance of the Bonds.

DEBT SERVICE REQUIREMENTS

Annual debt service on the Bonds (assuming no redemptions of the Bonds other than sinking fund redemptions) is presented below.

Year Ending (August 1)	Principal ⁽¹⁾	Interest	Total
2013	\$ 250,000.00	\$ 362,943.13	\$ 612,943.13
2014	275,000.00	452,568.75	727,568.75
2015	285,000.00	441,568.75	726,568.75
2016	290,000.00	435,868.75	725,868.75
2017	300,000.00	424,268.75	724,268.75
2018	315,000.00	412,268.75	727,268.75
2019	375,000.00	399,668.75	774,668.75
2020	390,000.00	384,668.75	774,668.75
2021	400,000.00	369,068.75	769,068.75
2022	415,000.00	357,068.75	772,068.75
2023	430,000.00	340,468.75	770,468.75
2024	440,000.00	331,868.75	771,868.75
2025	450,000.00	321,968.75	771,968.75
2026	465,000.00	308,468.75	773,468.75
2027	480,000.00	294,518.75	774,518.75
2028	490,000.00	280,118.75	770,118.75
2029	505,000.00	266,643.75	771,643.75
2030	520,000.00	252,756.25	772,756.25
2031	535,000.00	237,156.25	772,156.25
2032	550,000.00	221,106.25	771,106.25
2033	570,000.00	204,606.25	774,606.25
2034	585,000.00	187,506.25	772,506.25
2035	605,000.00	169,956.25	774,956.25
2036	620,000.00	151,806.25	771,806.25
2037	640,000.00	133,206.25	773,206.25
2038	660,000.00	113,206.25	773,206.25
2039	685,000.00	92,581.25	777,581.25
2040	705,000.00	71,175.00	776,175.00
2041	730,000.00	48,262.50	778,262.50
2042	755,000.00	24,537.50	779,537.50
TOTALS	<u>\$14,715,000.00</u>	<u>\$8,091,880.63</u>	<u>\$22,806,880.63</u>

(1) Preliminary, subject to change. Includes mandatory sinking fund installments.

THE BONDS

General Provisions

The Bonds will be dated their date of delivery, will bear interest from such date at the rates per annum set forth on the cover page hereof, payable semiannually on each February 1 and August 1, commencing February 1, 2013, and will mature on August 1 in each of the designated years in the principal amounts set forth on the cover page hereof. Interest on the Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof, unless (a) a Bond is authenticated after the fifteenth (15th) calendar day of the month preceding such Interest Payment Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (b) unless a Bond is authenticated on or before January 15, 2013, in which event it will bear

interest from its date of delivery; *provided, however*, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Book-Entry Only System

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds so purchased. Individual purchases will be made in book-entry-only form. Purchasers will not receive a certificate representing their beneficial ownership interest in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders, holders or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” shall mean the person for whom a Participant (as defined herein) acquires an interest in the Bonds. See APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

In the event the use of the book-entry-only system is discontinued, principal of the Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee in San Francisco, California. Interest payable on the Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Bond is registered in the registration books maintained by the Trustee as of the applicable Record Date for such Interest Payment Date; provided that registered owners of \$1,000,000 or more in aggregate principal amount of Bonds may request payment by wire transfer, such request to be submitted in writing to the Trustee on or before the applicable Record Date for such Interest Payment Date in accordance with the provisions set forth in the Indenture.

Transfer and Exchange

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Transfer of any Bond shall not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption. Whenever any Bonds or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee may require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Any Bond may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. Exchange of any Bond shall not be permitted during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption. The Trustee shall require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Terms of Redemption

Optional Redemption. The Bonds maturing on or prior to August 1, 2022, are non-callable. The Bonds maturing on and after August 1, 2023, are subject to redemption, at the option of the City, on any date on or after August 1, 2022, as a whole or in part, by such

maturities as shall be determined by the City, and by lot within a maturity, from prepayments of the Installment Payments made at the option of the City pursuant to the Installment Sale Agreement, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption.

Bonds Maturing on August 1, 2027. The Bonds maturing on August 1, 2027 (the “2027 Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on August 1, 2025, and on August 1 in each year thereafter to and including August 1, 2027, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the 2027 Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2027 Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
<u>2025</u>	<u>\$450,000</u>
<u>2026</u>	<u>465,000</u>
<u>2027†</u>	<u>480,000</u>

† Maturity.

Bonds Maturing on August 1, 2029. The Bonds maturing on August 1, 2029 (the “2029 Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth on August 1, 2028, and on August 1, 2029, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the 2029 Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2029 Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
<u>2028</u>	<u>\$490,000</u>
<u>2029†</u>	<u>505,000</u>

† Maturity.

Bonds Maturing on August 1, 2033. The Bonds maturing on August 1, 2033 (the “2033 Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on August 1, 2030, and

on August 1 in each year thereafter to and including August 1, 2033, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the 2033 Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2033 Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
<u>2030</u>	<u>\$520,000</u>
<u>2031</u>	<u>535,000</u>
<u>2032</u>	<u>550,000</u>
<u>2033†</u>	<u>570,000</u>

† Maturity.

Bonds Maturing on August 1, 2036. The Bonds maturing on August 1, 2036 (the “2036 Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on August 1, 2034, and on August 1 in each year thereafter to and including August 1, 2036, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the 2036 Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2036 Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
<u>2034</u>	<u>\$585,000</u>
<u>2035</u>	<u>605,000</u>
<u>2036†</u>	<u>620,000</u>

† Maturity.

Bonds Maturing on August 1, 2039. The Bonds maturing on August 1, 2039 (the “2039 Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on August 1, 2037, and on August 1 in each year thereafter to and including August 1, 2039, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the 2039 Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2039 Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such

determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
<u>2037</u>	<u>\$640,000</u>
<u>2038</u>	<u>660,000</u>
<u>2039†</u>	<u>685,000</u>

† Maturity.

Bonds Maturing on August 1, 2042. The Bonds maturing on August 1, 2042 (the “2042 Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on August 1, 2040, and on August 1 in each year thereafter to and including August 1, 2042, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the 2042 Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2042 Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
<u>2040</u>	<u>\$705,000</u>
<u>2041</u>	<u>730,000</u>
<u>2042†</u>	<u>755,000</u>

† Maturity.

Purchase of Bonds In Lieu of Redemption. In lieu of redemption of Bonds as provided above, amounts held by the Trustee for such redemption may also be used on any Interest Payment Date, upon receipt by the Trustee at least ninety (90) days prior to the next scheduled Interest Payment Date of the written request of an Authorized Representative of the City, for the purchase of Bonds at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the City may in its discretion direct, but not to exceed the redemption price which would be payable if such Bonds were redeemed. Such purchases may be affected through the investment department of the Trustee or of an affiliate of the Trustee. The aggregate principal amount of Bonds of the same maturity purchased in lieu of redemption shall not exceed the aggregate principal amount of Bonds of such maturity which would otherwise be subject to such redemption.

Selection of Bonds for Redemption. The Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption by lot within a maturity. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond. No Bonds selected for redemption may be transferred.

Notice of Redemption. Notice of redemption shall be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to

the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, and to the Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and Bond numbers of the Bonds to be redeemed, the maturity or maturities of the Bonds to be redeemed and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

Notice of any optional redemption of Bonds shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Bonds to be redeemed is on deposit in the applicable fund or account.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed pursuant to the provisions of the Indenture shall be canceled by the Trustee upon surrender thereof and destroyed.

SECURITY FOR THE BONDS

Revenues

The Bonds are special obligations of the Authority payable from and secured by a pledge of the Revenues, consisting primarily of Installment Payments to be made by the City under the Installment Sale Agreement, and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture.

The Installment Payments payable to the Trustee are calculated to be sufficient to pay, when due, the principal of and interest on the Bonds.

Installment Payments

Obligation to Pay. The City agrees to pay to the Authority, its successors and assigns, but solely from the Net Revenues, as the purchase price of the Project, an amount equal to the aggregate principal amount of the Bonds, together with interest on the unpaid principal balance, payable in Installment Payments coming due and payable on each Installment Payment Date. The Installment Payments will be paid by the City to the Trustee, as assignee of the Authority pursuant to the Indenture.

The City's obligations under the Installment Sale Agreement are secured by a pledge of and lien on Net Revenues.

Effect of Prepayment. In the event that the City prepays all remaining Installment Payments in full, the City's obligations under the Installment Sale Agreement will thereupon cease and terminate, including but not limited to the City's obligation to pay Installment Payments; *provided, however,* that the City's obligations to compensate and indemnify the Trustee shall survive such prepayment. In the event that the City prepays the Installment Payments in part but not in whole, the principal component of each succeeding Installment Payment will be reduced and the interest component of each remaining Installment Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the Bonds thereby redeemed.

Rate on Overdue Payments. In the event the City fails to make any of the payments required in the Installment Sale Agreement, the payment in default will continue as an obligation of the City until the amount in default is fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment, at the rate of ten percent (10%) per annum.

Assignment. The City agrees that all Installment Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the City assents to such assignment.

Application of Gross Revenues; Pledge and Application of Net Revenues

Deposits Into Sewer Fund; Transfers to Make Installment Payments. Pursuant to the Installment Sale Agreement, the City has covenanted to deposit all of the Gross Revenues, immediately upon receipt, in the Sewer Fund.

Upon receipt of Gross Revenues, the City will segregate such amounts as shall be estimated to be required to pay all Maintenance and Operation Costs for the period beginning on such date and ending on the next anticipated date of receipt of Gross Revenues. Amounts remaining on deposit in the Sewer Fund are Net Revenues.

The City covenants and agrees in the Installment Sale Agreement that all Net Revenues will be held by the City in the Sewer Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority under the Installment Sale Agreement) and the Owners, and for the benefit of the owners of any Parity Obligations.

Pledge of Net Revenues; Transfers. Under in the Installment Sale Agreement, the Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments and all Parity Obligations and, except as otherwise provided in the Installment Sale Agreement, the Net Revenues may not be used for any other purpose so long as any of the Installment Payments or payments with respect to any Parity Obligations remain

unpaid. Such pledge, charge and assignment constitutes a first lien on the Net Revenues for the payment of the Installment Payments and all Parity Obligations.

On or before the fifth Business Day preceding each Interest Payment Date, commencing July 5, 2012, the City shall withdraw from the Sewer Fund (together with similar withdrawals from the Sewer Fund with respect to all Parity Obligations):

(i) and transfer to the Trustee for deposit in the Bond Fund, an amount (other than amounts resulting from the prepayment of the Installment Payments and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), equal to the interest component of the Installment Payment and the interest component of any outstanding Parity Obligations coming due and payable on the next succeeding Interest Payment Date, and the principal component of the Installment Payment and the principal component of any outstanding Parity Obligations coming due and payable on the next succeeding principal payment date, if any, provided that any amounts on deposit in the Bond Fund, shall be credited against the City's obligation to make such deposits or transfers therein,

(ii) and transfer to the Trustee for deposit in the Reserve Account (and transfer on a parity to such similar funds or accounts established as reserve funds with respect to Parity Obligations such amounts as are required for the replenishment thereof), the amount, if any, required to increase the amount on deposit in the Reserve Account to the Reserve Requirement, and amount, if any, required to increase the amount on deposit in similar funds or accounts established as reserve funds with respect to Parity Obligations, the amount, if any, required to increase the amount on deposit therein to the reserve requirement of such funds or account,

(iii) and pay all other amounts, including Additional Payments, when and as due and payable under the Installment Sale Agreement and under any agreements relating to Parity Obligations, and

(iv) and pay all amounts, when and as due and payable with respect to any Subordinate Debt.

Release from Lien. Following the transfers described above, excess Net Revenues shall be released from the lien of the Installment Sale Agreement and shall be available for any lawful purpose of the City.

Special Obligation of the City; Obligations Absolute

The City's obligation to pay the Installment Payments, the Additional Payments, any other amounts coming due and payable under the Installment Sale Agreement and payments with respect to Parity Obligations is a special obligation of the City limited solely to the Net Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of the Installment Payments, the Additional Payments or payments with respect to Parity Obligations, nor will any other funds or property of the City be liable for the payment of the Installment Payments, the Additional Payments or payments with respect to Parity Obligations and any other amounts coming due and payable under the Installment Sale Agreement.

The obligations of the City to make the Installment Payments, the Additional Payments and payments with respect to Parity Obligations from Net Revenues and to perform and

observe the other agreements contained in the Installment Sale Agreement and under agreements with respect to Parity Obligations are absolute and unconditional and are not subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Sewer System, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee. Until such time as all of the Installment Payments, all of the Additional Payments and all other amounts coming due and payable under the Installment Sale Agreement and payments with respect to Parity Obligations shall have been fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Installment Payments, Additional Payments, payments with respect to Parity Obligations or such other amounts, (b) will perform and observe all other agreements contained in the Installment Sale Agreement and under any agreements with respect to Parity Obligations, and (c) will not terminate the Installment Sale Agreement or agreements with respect to Parity Obligations for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Sewer System, failure to complete the Acquisition and Construction of any Project by the estimated Completion Date thereof, sale of the Sewer System, the taking by eminent domain of title to or temporary use of any component of the Sewer System, commercial frustration of purpose, any change in the tax law or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, the Installment Sale Agreement or agreements with respect to Parity Obligations.

Nothing contained in the Installment Sale Agreement shall be construed to release the Authority or the Trustee from the performance of any of the agreements on its part contained in the Installment Sale Agreement or in the Indenture, and in the event the Authority or the Trustee shall fail to perform any such agreements, the City may institute such action against the Authority or the Trustee as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's rights under, the Installment Sale Agreement and in such event the Authority hereby agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City shall so request.

Rate Covenant

The City covenants under the Installment Sale Agreement to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Sewer System during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which 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 error in the estimates, to pay the following amounts:

(a) all Maintenance and Operation Costs estimated by the City to become due and payable in such Fiscal Year;

(b) The Installment Payments and all payments required with respect to Parity Obligations;

(c) all other payments required for compliance with the Installment Sale Agreement and the instruments pursuant to which any Parity Obligations shall have been issued; and

(d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

In addition, the City covenants under the Installment Sale Agreement to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Sewer System during each Fiscal Year which are sufficient to yield Net Revenues, including connection charges together with other funds accumulated in the City's Sewer Fund and which are lawfully available to the City for payment of the debt service on the Bonds, at least equal to one hundred twenty percent (120%) of the amounts payable under the preceding paragraph (b) in such Fiscal Year.

Limitations on Future Obligations Secured by Net Revenues.

No Obligations Superior to Installment Payments. In order to protect further the availability of the Net Revenues and the security for the Installment Payments and any Parity Obligations, the City hereby agrees that the City shall not, so long as the Installment Payments are not fully paid or any Parity Obligations are outstanding, issue or incur any obligations payable from Net Revenues superior to the Installment Payments or such Parity Obligations.

Parity Obligations. The City further covenants under the Installment Sale Agreement that it will not issue or incur any Parity Obligations unless:

(i) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Obligations are issued or incurred, as shown by the books of the City, plus, at the option of the City, the additional allowance described below, shall have amounted to at least 1.20 times Maximum Aggregate Annual Debt Service immediately subsequent to the incurring of such additional obligations; *provided, however,* that the City may at any time incur Parity Obligations without compliance with the foregoing conditions if the Annual Debt Service for each Fiscal Year during which such Parity Obligations are Outstanding will not be increased by reason of the incurrence of such Parity Obligations.

Either or both of the following items may be added to such Net Revenues for the purpose of applying the restriction contained herein:

(A) An allowance for revenues from any additions to or improvements or extensions of the Sewer System to be constructed with the proceeds of such Parity Obligations, and also for Net Revenues from any such additions, improvements or extensions which have been constructed from any source of funds but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions to be constructed during the first 36-month period following issuance of the proposed Parity Obligations, all as shown by the certificate or opinion of a qualified independent consultant employed by the City, may be added to such Net Revenues for the purpose of applying the restriction contained in this paragraph (ii) and/or

(B) An allowance for earnings arising from any increase in the charges made for service from the Sewer System which has become effective prior to the incurring of such Parity Obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of 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 and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent consultant employed by the City; and

(ii) A reserve fund may be funded for such Parity Obligations, with cash or Permitted Investments, which is at least equal to the least of the maximum annual payments to be made with respect to such Parity Obligations, 125% of the average annual payments to be made with respect to such Parity Obligations and 10% of the principal amount of such Parity Obligations.

Subordinate Debt. The City further covenants under the Installment Sale Agreement that the City will not issue or incur any Subordinate Obligations unless Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Subordinate Obligations are issued or incurred, as shown by the books of the City shall, after deducting all amounts required for the payment of the Bonds and any Parity Obligations, have amounted to at least 1.0 times the sum of the maximum annual debt service on all Subordinate Obligations outstanding immediately subsequent to the incurring of such additional obligations. An allowance for earnings arising from any increase in the charges made for service from the Sewer System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, may be added in an amount equal to 100% of 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 and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent consultant employed by the City.

Additional Payments

In addition to the Installment Payments, the City covenants under the Installment Sale Agreement to pay when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund or the Project Fund), and to pay to the Trustee upon request therefor all compensation for fees due to the Trustee and all of its costs and expenses payable as a result of the performance of and compliance with its duties under the Installment Sale Agreement or under the Indenture or any related documents, together with all amounts required to indemnify the Trustee pursuant to the Installment Sale Agreement and the Indenture, and all costs and expenses of attorneys, auditors, engineers and accountants. Such rights of the Trustee and the obligations of the City shall survive the termination of the Installment Sale Agreement.

Reserve Account

The Reserve Account is established by the Indenture and is required to be funded in an amount equal to the least of (a) Maximum Annual Debt Service on all Outstanding Bonds, (b) 125% of average annual debt service on all Outstanding Bonds, and (c) 10% of the principal amount of all Outstanding Bonds (the "Reserve Requirement"). The Reserve Requirement as of the date of delivery of the Bonds is \$779,537.50. Amounts in the Reserve Account are to be used only for the payment of the principal of and interest on Bonds to the extent amounts in

the Principal Account and/or the Interest Account are insufficient therefor. Prior to the completion of the acquisition and construction of the Project, interest income on investments credited to the Reserve Account are to be periodically transferred to the Project Fund, provided that the Reserve Account is at its required amount. Following completion of acquisition and construction of the Project, amounts from investment earnings accumulating in the Reserve Account in excess of its requirement are to be transferred to the Bond Fund on or prior to January 15 and July 15 of each year.

Flow of Funds

No later than the first Business Day preceding each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding.

(b) The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date.

(c) The Trustee will deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any.

(d) The Trustee will deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

THE AUTHORITY

The Authority was established pursuant to a Joint Exercise of Powers Agreement, dated July 31, 2012 (the "JPA Agreement"), between the City and the California Municipal Finance Authority. The JPA Agreement was entered into pursuant to the provisions of Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code. The members of the governing board of the Authority consist of the members of the City Council of the City. The Authority is authorized pursuant to Article 4 (commencing with section 6584) of the Act to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities, including the City and to provide financing for public capital improvements for lease to the City.

THE CITY

The City is a chartered city which was incorporated in 1854. The City is located in the County just west of the City of Oakland and approximately 12 miles east of San Francisco. The City consists of an island in the eastern portion of San Francisco Bay approximately six miles long by one and one-half miles wide and part of a peninsula adjacent to the Oakland Airport. The island portion is connected to the East Bay Area by three bridges and a vehicular

underwater double barrel tube. Total City area is 22.7 square miles, about 12.4 square miles of which is water area.

The City is a major marine recreational area for Northern California with seven marinas and a private seaport. The City is part of the highly urbanized East Bay, which consists of Alameda and Contra Costa counties. A highly skilled labor force, excellent transportation facilities, renowned educational institutions and available advanced research and development resources contribute to the area's economy.

The City operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, who is appointed by the City Council. All municipal departments operate under the supervision of the City Manager. The Council consists of four members who are elected at large for four-year overlapping terms. The Mayor is elected directly by the people for a four year term. Municipal services provided by the City include police, fire, public works, general government, parks and recreation, sanitary sewer, community development, planning, golf, library and base reuse. Component units of the City include Alameda Municipal Power and the Alameda Housing Authority.

Information with respect to the City, including financial information and certain economic and demographic information relating to the City is provided in APPENDIX A—GENERAL INFORMATION ABOUT THE CITY OF ALAMEDA. Also, see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

THE SEWER SYSTEM

Facilities

The City operates and maintains the Sewer System, a collection system and storm drains. The sewage collection and conveyance facilities include approximately 140 miles of main sewer lines and 34 pumping stations. The City does not operate and the Sewer System does not include a treatment facility. Wastewater treatment is provided by the East Bay Municipal Utility District ("EBMUD"), a sewer and water utility special district.. The Sewer System facilities collect wastewater which is conveyed to EBMUD's treatment facility at Freeway 580 and the Bay Bridge in Oakland which provide primary and secondary treatment. The City's sewage flows to EBMUD's treatment facilities were approximately 6.2 MGD Dry Weather Flow in 2010-11 and is estimated that the City's sewage flows to EBMAUD's treatment facilities will be approximately 6.2 MGD Dry Weather Flow in 2011-12.

Alameda Point will be included in the City's sewer system by the end of 2012. The Navy is beginning transfers of the property at Alameda Point in December 2012 with subsequent conveyances anticipated in December 2014, December 2015 and December 2016. The Alameda Point sewage collection and conveyance facilities include approximately 28 miles of main sewer lines, 18 pumping stations and 510 laterals.

The small pipes (typically 6 inches in diameter) that connect homes and businesses to the collection system sewer mains are called service laterals. The portion of the service laterals located within the public right-of-way (from the connection to the sewer main to the property line) are maintained by the City, provided that there is a sewer clean-out at the property line. The portion of the service laterals, located back of the property line, are owned by private property owners, who are responsible for their maintenance and repair.

Management and Employees

The City's Public Works Department is responsible for the management and operation of the Sewer System. For Fiscal Year 2011-12, the City had 11.25 full-time equivalent ("FTE") employee positions budgeted for the Sewer System. Of the Sewer System FTE employees, 0.3 are represented by the Executive Management Employees (EXE), 0.8 are represented by the Management and Confidential Employee Association (MCEA); and 10.15 are represented by the Alameda City Employees Associations (Operating Engineers Local 3) (ACEA). All three of units are covered under Memorandums of Understanding dated June 19, 2012, which expires on December 26, 2015.

Supervisory Employees

- **Matthew Naclerio** is the Public Works Director and has over 20 years of experience managing Public Works operations.
- **Barbara Hawkins** is the City Engineer and has over 20 years of engineering management experience. Ms. Hawkins holds a Masters Degree in Civil Engineering, with an emphasis in Sanitary Sewer Systems.
- **Max Arbios** is the Maintenance Supervisor (Sewer Division) and has over 13 years with the City in the Sewer Division and over 15 years of experience working in the private sector.
- **Patrick Papalagi** is the Team Leader (Sewer Division) and has over 14 years with the City in the Sewer Division and over 7 years of experience working in the private sector.

Service Area and Users

The City provides wastewater collection and disposal services within the City limits. The service area covers approximately 12.7 square miles and serves a population of approximately 74,000. The Sewer System includes 20,600 sewer customer accounts, of which 19,154 (approximately 92.98%) are residential customers and the remaining 1,466 accounts (approximately 7.02%) are commercial (retail/office), schools, churches and industrial users.

The ten largest customers of the Sewer System, by revenue, for the 2010-11 fiscal year, is shown in the following table:

TABLE 1
Sewer System
Ten Largest Customers, by Revenue
For the Fiscal Year Ended June 30, 2011

User	Revenue
1 Ballena Village LLC	\$ 82,037.76
2 KW Alameda LLC	81,619.20
3 South Shore Beach & Tennis Club	56,714.88
4 Alameda Gateway Ltd	49,759.64
5 KW Alameda LLC	47,088.00
6 Housing Authority of the City of Alameda	42,526.82
7 Kauffman Patsy TR	38,926.08
8 Housing Authority of the City of Alameda	37,109.20
9 UJB Partners LP	30,136.32
10 Harsch Investment Realty, LLC Series C	28,443.24
	<u>\$494,361.14</u>

Source: City of Alameda.

The ten largest customers of the Sewer System, by consumption, for the 2010-11 fiscal year, is shown in the following table:

TABLE 2
Sewer System
Ten Largest Customers, by Consumption
For the Fiscal Year Ended June 30, 2011

User	Consumption (in 100s of Cubic Feet)
1 City of Alameda	150,752
2 USCG Finance Center	41,399
3 KW Alameda LLC	31,755
4 KW Alameda LLC	18,751
5 Len Ray Hanson	16,956
6 Alameda Gateway	16,608
7 Park Webster Homeowners	14,574
8 So. Shore Beach & Tennis Club	13,148
9 City of Alameda	12,118
10 Alameda Hospital	9,076
	<u>325,137</u>

Source: City of Alameda.

Rate Setting Process

The wastewater service charges are established by resolution adopted by a majority vote of the City Council and become effective immediately. Prior to rate increases being implemented they must be presented to the rate payers through a Proposition 218 protest hearing process. This process has been completed for the rate increases associated with this financing. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES."

Utility rates and charges are reviewed as part of the City's budgetary process. Once results of operations for the various enterprise funds are known, a determination is made as to whether it is appropriate for rate adjustments to be made. The timing of rate adjustments may or may not coincide with the budget adoption process, but the implications of any rate adjustments are considered in budget development. The process used to set rates follows State regulations concerning the operation of local government utilities. Typically, several public hearings are held to review staff studies and recommendations concerning rate adjustments before final adoption of rate changes. Annually, a compilation of charges for all City services is done to produce a comprehensive fee schedule for the City.

Prior to June 1, the City Manager submits to the City Council a proposed preliminary budget for the next two fiscal years. The City's fiscal year is July 1 through June 30. The proposed budget includes all funds, including the Sewer Fund and capital projects. The proposed budget includes expected expenditures (or expenses, as appropriate) and the means of financing them. Typically, extensive City Council review occurs during May, and public hearings are conducted in June to obtain citizen comments. The preliminary budget is legally adopted prior to July 1 with the final budget adopted after the State adopts its annual budget in August of each year.

In each year total expenditures of any fund may not exceed total appropriations for that fund. However, the City Council may legally amend the budget at any time during the fiscal year by the adoption of supplemental appropriations and transfers within the programs.

Rates

Rate changes are enacted by the City Council based upon the recommendations of City staff. On July 20, 2010, the City Council adopted Ordinance No. 3019 which set wastewater rates to be raised rates 14% each year for the first three years then by amount equal to the increase in the consumer price index for the four and fifth years. Wastewater rates will be reviewed again in July 2015. Rate categories exist for (1) residential users, (2) commercial businesses and professional offices and (3) industrial customers.

**TABLE 3
Sewer System
Rate Table**

	July 2011	July 2012	July 2013
Single Family	\$17.00	19.38	22.09
Multi Family	\$15.30	17.44	19.88
Commercial ⁽¹⁾	\$15.30	17.44	19.88

Source: City of Alameda.

⁽¹⁾ \$15.30 for first 730 cu of metered water plus \$2.10 per 100 cf of metered water in excess of 731 cf per month. The excess water sewer service charge will increase proportionately to the base rate increase.

Comparative Rates

The following table presents a comparison of the City's current average monthly residential sewer charge and connection fee with other nearby communities.

TABLE 4
Sewer System
Comparative Rate Table
Existing Sewer Fees of the Seven Satellite Agencies
Tributary to EBMUD (Fiscal Year 2009-10)

	Single Family	Multi Family	Commercial
Alameda	\$14.91/month	\$13.42/month	\$1.84/100cf/month ⁽¹⁾
Albany	\$25.29/month	\$34.39/month ⁽²⁾	\$25.29/month ⁽³⁾
Berkeley	\$41.66/month ⁽⁴⁾	\$38.65/month ⁽⁵⁾	\$3.78/100cf/month
Emeryville	\$8.00/month	\$1.25/100cf/month	\$1.25/100cf/month
Oakland ⁽⁹⁾	\$22.24/month	\$1.52/100cf/month ⁽⁶⁾	\$1.52/100cf/month ⁽⁶⁾
Piedmont	\$37.67/month ⁽⁷⁾	\$31.41/month	\$67.91/month
Stege Sanitary Dist. ⁽¹⁰⁾	\$10.25/month	\$10.25/month	\$1.74/100cf/month ⁽⁸⁾

Source: City of Alameda.

⁽¹⁾ \$13.42 for the first 730 cubic feet (cf) of metered water, plus \$1.84 per 100 cf of metered water in excess of 731 cubic feet per month.

⁽²⁾ 2 For 5 or more units. \$101.16+(number of units * \$17.70). \$34.39 is calculated fee per unit for a 5-unit complex.

⁽³⁾ \$25.29 fee is per Equivalent Residential Unit (ERU) per month.

⁽⁴⁾ Single family \$3.11/100 cf/month, \$41.66 monthly cap.

⁽⁵⁾ Multi-family \$3.34/100cf/month. \$38.65 monthly cap.

⁽⁶⁾ Apt. Bldgs. (5+ Units): \$1.52 per 100 cubic feet; Industrial Accounts: \$1.38 per 100 cf; Commercial Accounts: \$1.52 per 100 cf; Restaurants/Hotels: \$1.57 per 100 cf; Hospitals: \$1.69 per 100 cf; Laundromats/Carwashes: \$1.78 per 100 cf; Metered Sewage Accounts: \$1.84 per 100 cf. Minimum \$22.24

⁽⁷⁾ Based on parcel square footage. \$37.67-\$67.91/month single family. \$67.91-\$93.58/month commercial.

⁽⁸⁾ Price shown is converted from the published \$2.33/1000 gallons fee.

⁽⁹⁾ The low sewer fee is due to the fact that majority of Emeryville sewer revenue is from commercial uses, and the high-density housing reduces the sewer lengths as most residential structures are high-rise multi-family complexes. Emeryville also does not maintain sewer laterals.

⁽¹⁰⁾ Stege Sanitary District's low sewer fees are due to the fact that Stege Sanitary District does not maintain the sewer laterals.

Billing and Collection of Sewer Charges

Sewer service charges are billed to customers on their property tax bills and are payable semi-annually in the same manner and according to the same procedures as is applicable to its property taxes. For entities whose property is tax-exempt, the City bills and collects sewer service charges directly from such entities.

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency receives the amount of uncollected taxes credited to its fund, in the same manner as if the amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The County applies the Teeter Plan to the payment of delinquent sewer charges.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may

also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured roll in that agency. The Board of Supervisors has never elected to exercise this right.

Capital Improvement Program

The Capital Improvement Program (CIP) for the City, including the Sewer System, is reviewed each year as part of the budget process. The CIP includes individual plans for improvement projects and capital expenditures for comprehensive studies (master plans, impact fee studies, etc.), special programs, and major vehicle and equipment replacement. The base Sewer CIP was developed as part of the user fee and capacity charge programs. For the Sewer System, \$6,830,000 to \$8,385,000 per year is allocated in capital expenditures for plant and collection system improvements. Funds may be carried from one year to the next to fund larger projects.

In addition to the 2012 Project, the City has additional capital projects planned for the Sewer System, to be funded in the future from a combination of fund balances, and grants.

- Manhole Replacement/Repairs: \$100,000 per year,
- Sewer Point Repairs: \$350,000 per year, and
- Sewer Video and Data analysis: \$385,000 per year.

Regulatory Compliance

Regulations with respect to sanitary sewer systems pertain to the prohibition against overflows or bypasses of untreated wastewater. In general, such overflows and bypasses that reach the surface waters of the United States are violations of the Federal Clean Water Act (CWA) and subject to fines by the State Water Resources Control Board ("SWRCB") and the Central Valley Regional Water Quality Control Board.

Many sewer systems experience sanitary sewer overflows (SSOs) to varying degrees, particularly during wet weather periods due to infiltration and inflow of extraneous groundwater and storm water entering pipe and manhole defects and illegal drainage connections. SSOs have been recognized as a national problem, and over the past years, the United States Environmental Protection Agency ("USEPA") has conducted a national "policy dialog" to develop consensus on a national policy on SSOs that can be formulated into regulations. The policy dialog has been conducted by the SSO Advisory Subcommittee to the USEPA Urban Wet Weather Flows Federal Advisory Committee, formed under the Federal Advisory Committee Act.

The USEPA has formulated issue papers that form the basis for the national SSO policy. In California on May 2, 2006, the State Water Resources Control Board adopted Order No. 2006-0003DWQ which established a Statewide General Waste Discharge Requirement for Sanitary Sewer Systems. This new unfunded mandate affects all municipal sewer agencies in the state. The Waste Discharge Requirement (WDR) regulates discharge of Sanitary Sewer Overflows (SSO) to receiving waters and requires electronic reporting of all SSOs and the development of a Sanitary Sewer Management Plan (SSMP).

The purpose of the SSMP is to properly manage, operate, and maintain all portions of an agency's Sewer Collection System and provide adequate capacity to convey peak sewer flows, minimize the frequency of SSOs, mitigate impacts of SSOs that occur and meet all the

notification and reporting requirements. The management plan will consist of the following eight elements:

- Goals (November 2007)
- Organization (November 2007)
- Legal Authority (May 2009)
- O&M Program (May 2009)
- Design and Performance Provisions (August 2009)
- Overflow Emergency Response Plan (May 2007)
- Fats, Oil and Grease (FOG) Control Program (Ordinance, dated July 14, 2011)
- System Evaluation and Capacity Assurance Plan–Asset Management Plan (July 2012)

The City has utilized flow monitoring and land use, together with a computerized hydraulic model of its sewer collection system, to identify existing pipe segments that currently or in the future do not have sufficient capacity to handle anticipated growth. The need to provide sufficient capacity for new collection sewers, or for existing collection sewers that are currently or in the future will be deficient in capacity, is one of the driving forces of the City's capital improvement plan.

The Regional Board establishes treatment levels based on the ultimate disposal. Treated wastewater discharged to the percolation ponds must meet discharge requirements as defined in the Waste Discharge Requirements (WDRs) established by the Regional Board.

The water quality requirements for NPDES permits and/or WDRs are based on the following:

- Federal Clean Water Act
- Water Quality Control Plan
- California Toxics Rule ("CTR")
- Title 22 of the California Code of Regulations

Scheduled monitoring frequency and constituents monitoring requirements are listed in the City's WDR permit. If monitoring data indicates that a pollutant could exceed the water quality criteria, the Regional Board may impose an effluent limit for that pollutant. The State also has the right to set water quality criteria, more stringent than the CTR, based on site-specific information.

On December 3, 2009, the United States, on behalf of the United States Environmental Protection Agency, filed a suit in the United States District Court for the Northern District of California alleging that seven municipalities (the "Satellite Agencies"), including the City, were in violation of the Clean Water Act. *United States of America, et al. v. City of Alameda, et al.* (N.D. Cal., Case No. C 09-05684 RS). Specifically, the suit alleges that the Satellite Agencies are in violation of the Clean Water Act and their National Pollution Discharge Elimination System ("NPDES") Permits because their sanitary sewer collection systems have unlawful sanitary sewer overflows ("SSOs") during wet weather, and that the Satellite Agencies are in violation of the operation and maintenance provisions of their NPDES Permits because their sanitary sewer collection systems contribute to excessive flow to treatment systems owned and operated by the East Bay Municipal Utility District.

On August 27, 2010, the Court granted, with conditions pursuant to a stipulation among the parties, San Francisco Baykeeper's motion to intervene as a plaintiff. Baykeeper's Complaint in Intervention makes similar allegations to the United States' Complaint, and also alleges that the Satellite Agencies violated an additional provision of their NPDES Permits and their MS4 Stormwater Permits. The State of California, on behalf of the California State Water Resources Control Board and California Regional Water Quality Control Board, San Francisco

Bay Region, realigned as a plaintiff , and on March 15, 2011 a First Amended Complaint was filed adding state law allegations that the Satellite Agencies' actions violate the California Water Code but no claims based on new theories or facts.

The parties entered into an interim settlement in the form of a proposed Stipulated Order for Preliminary Relief ("SO") that was lodged with the Court on March 15, 2011. On September 6, 2011, the Court signed the SO. The SO will remain in effect at least until January 1, 2013 unless a party invokes dispute resolution. SO, ¶ 136. Also on September 6, 2011, the Court issued an Order Extending Stay During Term of Stipulated Order, which stayed the litigation through the life of the SO.

The SO requires the Satellite Agencies, including the City, to gather information that EBMUD will use to determine how to reduce flows to its system and to reduce inflow and infiltration into their collection systems. Pursuant to the terms of the SO, the City is required to the implement programs for controlling SSOs and reducing inflow and infiltration in the City's Sewer System Management Plan; prepare an Asset Management Implementation Plan that has inspection and maintenance schedules; prepare a schedule and financial plan for eliminating improper flow connections through repair, rehabilitation and replacement of sewer pipes; adopt and implement a City ordinance setting standards for privately owned sewer laterals; annually between 2011 and 2020 replace 2.6 miles of sewer mains and lower laterals; classify sub-basins with regard to infiltration and inflow and target high priority areas for repair and rehabilitation; repair and/or replacing aging pump stations; implement the City's Sewer Cleaning and Root Control Plan; and conduct annual reporting on SSOs. SO, ¶¶ 20-28. After the studies and analysis called for in the SO are completed, it is anticipated that the parties will have sufficient information to enter into a final settlement in the form of a consent decree.

Risk Management

The City manages risk by participating in the public entity risk pools described below and by retaining certain risks. Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these risk pools are not the City's responsibility.

The City is a member of the California Joint Powers Risk Management Authority (CJPRMA), which covers general liability claims. The City has have self-insured retention of \$500,000 per claim. Once the self-insured retention is met, CJPRMA becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2011, the City contributed \$592,296 for coverage during the current year. The City is a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) which covers workers' compensation claims up to statutory limits. The City has self-insured retention of up to \$350,000 per claim. During the fiscal year ended June 30, 2011, the City contributed \$486,723 for current year coverage.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011—Financial Section—Notes to Basic Financial Statements—Risk Management, Note 11.

Employee Retirement Plan

All Full time City employees are eligible to participate in pension plans offered by the California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan, which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011—Financial Section—Notes to Basic Financial Statements—Pension Plans, Note 9.

Other Post-Employment Benefits

The City provides medical and dental benefits to retirees as specified below under the City of Alameda Other Post Employment Benefit Plan, offered by California Public Employee Retirements Systems (CALPERS), an agent multiple-employer defined benefit healthcare plan. The City is responsible for establishing and amending the funding policy of the Plan. As of June 30, 2011, there were 551 employees active, 442 employees retired, and 209 employees who are retired but choose not receive benefits for a total of 1,202 participants in the Plan.

Separately issued financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

The annual required contribution (ARC) was determined as part of a January 1, 2011, actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 4.5% investment rate of return; (b) 3.25% projected annual salary increase; (c) 3% of general inflation increase; and (d) a healthcare trend of declining annual increases ranging from 9.4% in 2013 to 5% for years starting 2021. The actuarial methods and assumptions used include techniques that "smooth" the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually, as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability as of June 30, 2009, is being amortized using a 30-year closed amortization period. Assumption changes, plan changes and gains or losses are being amortized using a 15-year closed period.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011—Financial Section—Notes to Basic Financial Statements—Post Employment Health Care Benefits, Note 10.

Financial Statements

The City's audited financial statements dated November 29, 2011, for the fiscal year ended June 30, 2011, which include the financial results of the Sewer System, are attached hereto as APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Financial Information

The following table presents a five year summary of the revenues, expenses and net income of the Sewer System. The summary was derived from the City's annual combined financial statements for the years ended June 30, 2007 through 2011.

TABLE 5
SUMMARY OF REVENUES, EXPENSES AND
TRANSFERS AND CHANGES IN RETAINED EQUITY
Fiscal Years Ended June 30,

	2007	2008	2009	2010	2011
Operating Revenues					
Charges for Services	5,667,296	5,826,652	5,901,599	6,068,908	6,936,223
Other Revenue	19,823	3,099	1,867	680	4,626
	<u>5,687,119</u>	<u>5,829,751</u>	<u>5,903,466</u>	<u>6,069,588</u>	<u>6,940,849</u>
Operating Expenses					
Billing and Administration	658,438	649,044	636,852	1,026,134	1,064,782
Maintenance and Operations	2,348,479	2,366,522	2,795,735	2,049,722	2,263,965
Depreciation and Amortization	959,172	976,693	971,893	1,010,600	1,028,886
	<u>3,966,089</u>	<u>3,992,259</u>	<u>4,404,480</u>	<u>4,086,456</u>	<u>4,357,633</u>
Operating Income	1,721,030	1,837,492	1,498,986	1,983,132	2,583,216
Nonoperating income (expenses):					
Interest Income	845,558	973,185	636,847	295,685	386,715
Interest Expense	(278,056)	(328,501)	(322,293)	(272,959)	(241,028)
Intergovernmental Revenues	—	—	—	—	—
Impact/Connection Fees	25,000	—	—	—	—
Total nonoperating income (expense)	<u>592,502</u>	<u>644,684</u>	<u>314,554</u>	<u>22,726</u>	<u>145,687</u>
Net income before operating transfers	2,313,532	2,482,176	1,813,540	2,005,858	2,728,903
Operating Transfers					
Transfers In	—	—	—	53,317	918,100
Transfers Out	<u>(1,643,518)</u>	<u>(431,342)</u>	<u>(1,715,983)</u>	<u>(54,503)</u>	<u>(372,324)</u>
Change in Net Assets	670,014	2,050,834	97,557	2,004,672	3,274,679
Net Assets at Beginning of Year	46,251,645	46,921,659	48,972,493	49,070,050	51,074,722
Net Assets at End of Year	46,921,659	48,972,493	49,070,050	51,074,722	54,349,401

Source: City of Alameda Audited Financial Statements.

The following table shows balance sheet of the Sewer System as of June 30, 2007, through 2011, as reported in the City's combined financial statements.

TABLE 6
BALANCE SHEET
Fiscal Years Ended June 30,

	2007	2008	2009	2010	2011
Assets					
Current Assets					
Cash and investments	17,256,061	18,427,807	12,563,034	13,912,219	14,792,425
Accounts receivable	277,424	309,618	303,019	286,858	345,653
Taxes receivable	—	—	—	—	—
Deposits	447,893	405,235	362,577	319,919	277,261
Total Current Assets	<u>17,981,378</u>	<u>19,142,660</u>	<u>13,228,630</u>	<u>14,518,996</u>	<u>15,415,339</u>
Noncurrent Assets					
Restricted Assets					
Advances to Other Funds	—	—	3,000,000	3,000,000	3,000,000
Cash and Investments with fiscal agents	46	2,953	2,949	2,940	429,300
Fixed Assets	<u>38,024,528</u>	<u>38,259,158</u>	<u>40,617,295</u>	<u>40,695,779</u>	<u>42,261,373</u>
Total Assets	<u>56,005,952</u>	<u>57,404,771</u>	<u>56,848,874</u>	<u>58,217,715</u>	<u>61,106,012</u>
Liabilities and Fund Equity					
Current Liabilities					
Accounts Payable / Accrued Liabilities	101,820	67,271	65,908	134,920	440,841
Salaries / Benefits Payable	16,868	23,611	27,483	39,963	40,671
Interest Payable	154,291	127,513	116,951	92,567	77,062
Due to Other Funds	—	—	—	—	—
Deposits Payable	—	—	—	—	—
Unearned Revenue	—	—	—	—	—
Current Portion - Compensated Absences Payable	118,929	44,809	115,917	75,215	75,209
Current Portion - COPS/loans payable	<u>607,520</u>	<u>632,145</u>	<u>652,237</u>	<u>677,500</u>	<u>703,044</u>
Total Current Liabilities	<u>999,428</u>	<u>895,349</u>	<u>978,496</u>	<u>1,020,165</u>	<u>1,336,827</u>
Noncurrent liabilities					
Compensated Absences	—	84,262	—	—	—
COPS / Loans payable	<u>8,084,865</u>	<u>7,452,667</u>	<u>6,800,328</u>	<u>6,122,828</u>	<u>5,419,784</u>
Total Noncurrent Liabilities	<u>8,084,865</u>	<u>7,536,929</u>	<u>6,800,328</u>	<u>6,122,828</u>	<u>5,419,784</u>
Total liabilities	<u>9,084,293</u>	<u>8,432,278</u>	<u>7,778,824</u>	<u>7,142,993</u>	<u>6,756,611</u>
Net Assets					
Capital assets net of debt	29,332,143	30,174,346	33,164,730	33,895,451	36,138,545
Restricted for debt service	46	2,953	2,949	2,940	429,300
Unrestricted	<u>17,589,470</u>	<u>18,795,194</u>	<u>15,902,371</u>	<u>17,176,331</u>	<u>17,781,556</u>
Total net assets	<u>46,921,659</u>	<u>48,972,493</u>	<u>49,070,050</u>	<u>51,074,722</u>	<u>54,349,401</u>
Total Liabilities and Net Assets	<u>56,005,952</u>	<u>57,404,771</u>	<u>56,848,874</u>	<u>58,217,715</u>	<u>61,106,012</u>

Source: City of Alameda Audited Financial Statements.

Historical Revenues, Expenditures and Debt Service Coverage

The following table presents Sewer System revenues and expenditures for each of the five fiscal years ended June, 30, 2007, through 2010, including debt coverage for the City's obligations payable from Net Revenues:

TABLE 7
HISTORICAL REVENUES, EXPENDITURES AND DEBT SERVICE COVERAGE
Fiscal Year ended June 30,

	2007	2008	2009	2010	2011
Revenues					
Charges for services	5,667,296	5,826,652	5,901,599	6,068,908	6,936,223
Nonoperating Income	870,558	973,185	636,847	295,685	386,715
Other Revenue	19,823	3,099	1,867	680	4,626
Total Revenues	<u>6,557,677</u>	<u>6,802,936</u>	<u>6,540,313</u>	<u>6,365,273</u>	<u>7,327,564</u>
Expenses ⁽¹⁾					
Operating Expenses	3,006,917	3,015,566	3,432,587	3,075,856	3,328,747
SRF Loan Debt Service	471,735	471,735	471,735	471,735	471,735
Total Expenses	<u>3,478,652</u>	<u>3,487,301</u>	<u>3,904,322</u>	<u>3,547,591</u>	<u>3,800,482</u>
Net Revenues	3,079,025	3,315,635	2,635,991	2,817,682	3,527,082
1995 COPs Debt Service	426,230	424,110	426,360	422,713	424,306
Debt Service Coverage	7.22x	7.82x	6.18x	6.67x	8.31x

Source: City of Alameda.

⁽¹⁾ Excludes depreciation and amortization.

Projection of Revenues, Expenditures and Debt Service Coverage

The following table presents a projection of Sewer System revenues and expenditures for each of the four fiscal years ended June 30, 2012, through 2016, including debt coverage for the City's outstanding obligations to be secured by a pledge of, and payable from, Net Revenues:

TABLE 8
PROJECTION OF REVENUES, EXPENDITURES AND DEBT SERVICE COVERAGE
Fiscal Years Ended June 30,

	2012	2013	2014	2015	2016
Revenues					
Charges for services	7,747,730	9,003,095	9,177,960	9,499,189	9,831,660
Nonoperating Income	137,565	146,418	115,793	115,793	115,793
Other Revenue	6,000	6,000	6,000	6,000	6,000
Total Revenues	<u>7,891,295</u>	<u>9,155,513</u>	<u>9,299,753</u>	<u>9,620,982</u>	<u>9,953,453</u>
Expenses					
Operating Expenses	3,310,950	3,320,710	3,466,821	3,622,828	3,771,364
SRF Loan Debt Service	471,735	471,735	471,735	471,735	471,735
Total Expenses	<u>3,782,685</u>	<u>3,792,445</u>	<u>3,938,556</u>	<u>4,094,563</u>	<u>4,243,099</u>
Net Revenues	4,108,610	5,363,068	5,361,197	5,526,418	5,710,354
1995 COPs Debt Service	425,169	—	—	—	—
2012 Bonds Debt Service ^(†)	—	<u>612,943</u>	<u>727,569</u>	<u>726,569</u>	<u>725,869</u>
Total Debt Service ^(†)	<u>425,169</u>	<u>612,943</u>	<u>727,569</u>	<u>726,569</u>	<u>725,869</u>
Debt Service Coverage ^(†)	9.66x	<u>8.75x</u>	<u>7.37x</u>	<u>7.61x</u>	<u>7.87x</u>

Source: City of Alameda.

^(†) Preliminary, subject to change.

No assurances are provided by the City as to the certainty of the projected Sewer System revenues shown on the foregoing table. Actual revenues may be higher or lower than what has been projected.

INVESTMENT OF CITY FUNDS

Revenues collected by the City will be held and invested by the City in accordance with the provisions of the Indenture.

Funds held by the City, including Sewer System moneys, are invested in accordance with the City's Statement of Investment Policy (the "Investment Policy") prepared by the City Treasurer as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the City Council annually. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. Invested funds are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years. The City has never invested in derivatives

or reverse repurchase agreements and such investments and instruments are not allowed by City policy.

For more information about the City's investment policy, see APPENDIX C—CITY INVESTMENT POLICY.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. In the past, the voters have exercised this power from time to time, including through the adoption of Propositions 13 and 218.

From time to time other State and local initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Article XIII A

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the maximum ad valorem tax on real property to 1% of full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the County Assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the full cash value based in the event of declining property values caused by damage, destruction, or other factors and to provide that there would be no increase in the full cash value base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Article XIII B

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriations limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial sources for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the

proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

Proposition 218

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").

Specifically, under Article XIII D, 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 XIII D, 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.

In addition, Article XIII C provides that "the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. 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 Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General 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 XIII D regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIIIID to certain charges related to water service. In *Richmond*, the Court held that connection 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 XIIIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), 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 XIIIID 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 Sewer Agency v. Verjil* (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 XIIIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIIIC'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 XIIIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water 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 XIIIIC 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 works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Current Practice Regarding Rates and Charges. The City's practice has been to provide public notice of proposed water rate increases through means that include, among others, holding informational presentations at community group meetings, mailings to residential and commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the City Council. The most recent rate increase was enacted by the City in strict compliance with the procedures mandated by Proposition 218 and *Bighorn*.

Conclusion. It is not possible to predict how courts will further interpret Article XIIIIC and Article XIIIID 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. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for wastewater, or to call into question previously adopted wastewater rate increases.

Effect of Proposition 218 on the City; Possible Limitations on Enforcement Remedies.

The general financial condition of the City may be affected by provisions of Article XIII C and Article XIII D. In particular, provisions of Article XIII C (i) require taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the General Fund, to be approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges are subject to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles relating to the impairment of contracts. Provisions of Article XIII D that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (i) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

The ability of the City to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay the Installment Payments and, therefore, the principal of and interest on the 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) under Article XIII C or Article XIII D by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Installment Sale Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the Installment Sale Agreement, the rights and obligations under the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Installment Sale Agreement, including its covenants to generate sufficient Net Revenues, as a consequence of the application of Article XIII C and Article XIII D, or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

Proposition 26

On November 2, 2010, State voters approved Proposition 26 which amended certain sections of Article XIII C. The proposition attempts to define "tax" as used within Article XIII C as "any levy, charge, or exaction of any kind imposed by a local government, *except* the following: (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 for the reasonable

regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.” The local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

The foregoing discussion of Proposition 218 and Proposition 26 should not be considered an exhaustive or authoritative treatment of the provisions of such propositions or the possible effects of Proposition 218 and Proposition 26. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 and Proposition 26 may impact the City’s ability to make debt service payments on the Bonds. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Future Initiatives

Articles XIIC, XIID and Proposition 26 were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting Net Revenues or the City’s ability to increase its rates for water service. See “Proposition 218” above. The California constitution, Article XIID, Section 5(c), specifically recognizes that any assessment existing on the effective date (of Article XIID) shall be exempt from the procedures and approval process set forth in Article 4, to wit: “....(c) Any assessment the proceeds of which are exclusively used to repay bonded indebtedness of which the failure to pay would violate the Contract Impairment Clause of the Constitution of the United States.”

RISK FACTORS RELATING TO THE BONDS

The following section describes certain special considerations and risk factors affecting the risk of nonpayment or the security for the Bonds. The following discussion is not meant to be an exhaustive or definitive description of the risks associated with a purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors regarding the Bonds, together with all other information in this Official Statement, in order to make an informed investment decision with respect to the Bonds. There can be no assurance that other risk factors are not or will not become material in the future.

General

The payment of principal of and interest on the Bonds is secured solely by a pledge of Revenues, which is secured by a pledge by the City of the Net Revenues and certain funds under the Installment Sale Agreement. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide sewer services to its users, and the ability of the City to establish and maintain sewer fees and charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the City.

Limited Obligations

The Installment Payments are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to pay debt service on the Bonds from Net Revenues does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Installment Sale Agreement to make Installment Payments solely from Net Revenues. There is no assurance that the City can succeed in operating the Sewer System such that the Net Revenues in the future will be sufficient for that purpose.

Maintenance and Operation Costs

There can be no assurance that the City's expenses for the Sewer System will be consistent with the descriptions in this Official Statement. Changes in technology, changes in quality standards, loss of large customers, increased or decreased development, increases in the cost of operation, or other expenses could require increases in rates or charges in order to comply with the City's rate covenant in the Installment Sale Agreement.

Environmental Regulation

The kind and degree of sewer treatment which is effected through the Sewer System 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 Sewer System and mandate its use of technology. In the event that 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 Sewer 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 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.

Limited Recourse on Default

Failure by the City to make Installment Payments constitutes an event of default under the Installment Sale Agreement and the Trustee is permitted to pursue remedies at law or in equity to enforce the City's obligation to make such payments. Although the Trustee has the right to accelerate the total unpaid principal amount of the Installment Payments, there is no assurance that the City would have sufficient funds to pay the accelerated amounts.

Limitations on Remedies

The ability of the City to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay the Installment Payments and, therefore, of principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not

taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. Furthermore, the remedies available to the owners of the Bonds upon the occurrence of an event of default under the Installment Sale Agreement 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.

Initiatives

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. There is no assurance that the electorate or the State legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net Revenues and adversely affect the security for the Bonds. See CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218.”

Bankruptcy

The rights and remedies provided in the Installment Sale Agreement and the Indenture may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws or equitable principles that may affect the enforcement of creditors’ rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to the Bonds, the Installment Sale Agreement and the Indenture, including the opinion of Bond Counsel, will be similarly qualified. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Bonds and the City could be prohibited from taking any steps to enforce their rights under the Indenture.

Rate Process

The passage of Proposition 218 by the California electorate potentially affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218” and “—Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies.”

Insurance

The Installment Sale Agreement 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 Sewer System in the event of damage or destruction to such portion of the Sewer System. The City expects to self-insure a portion of the risk of loss as permitted by the Installment Sale Agreement. 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 Sewer System. Significant damage to the Sewer System could result in a lack of the ability to generate sufficient Net Revenues to repay the Bonds. The City does not, and does not expect to, maintain earthquake insurance on the Sewer System.

Tax Exemption

The Authority and the City have covenanted that they will take all actions necessary to assure the exclusion of interest with respect to the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income

under the Internal Revenue in the gross income of the Owners thereof for federal tax purposes. See "TAX MATTERS."

Parity Obligations

As described in "SECURITY FOR THE BONDS—Parity Obligations" above, the Installment Sale Agreement permits the City to issue or incur Parity Obligations which would be payable from Net Revenues on a parity with the payment of the Installment Payments. In the event of a decline in Net Revenues available to pay the Installment Payments, the existence of Parity Obligations could adversely affect the City's ability to pay the Installment Payments.

Seismic Considerations

The City, like much of California, is subject to seismic activity that could result in interference with operation of the Sewer System. There are several major active fault zones transecting the County that could cause "strong ground motion" at the site of the various facilities constituting the Sewer System during their useful life. If there were to be an occurrence of severe seismic activity in the area of the City, there could be an interruption in the service provided by the Sewer System resulting in a temporary reduction in the amount of Net Revenues available to pay the Installment Payments and, therefore, the principal of and interest on the Bonds when due.

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any 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.

APPROVAL OF LEGAL PROCEEDINGS

The legality and enforceability of the Bonds is subject to the approval of Quint & Thimmig LLP, San Francisco, California, acting as Bond Counsel. Certain disclosure matters will be passed upon for the City and the Authority by Quint & Thimmig LLP, San Francisco, California, acting as Disclosure Counsel. Certain legal matters will be passed upon for the City and the Authority by Janet Kern, Esq., the City Attorney.

LITIGATION

At the time of delivery of and payment for the Bonds, the City and the Authority will certify that there is no action, suit, proceedings, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City and the Authority, threatened against the City or the Authority affecting the existence of the City or the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture or the Installment Sale Agreement or any action of the City or the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto,

or contesting the powers of the City or the Authority with respect to the Bonds or any action of the City or the Authority contemplated by any of said documents, nor to the knowledge of the City or the Authority, is there any basis therefor.

RATING

Standard & Poor's Credit Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned the rating of "AA+" to the Bonds. Such rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from S&P at 55 Water Street, New York, NY 10041. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc., San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the authorization and delivery of the Bonds. The fees of the Financial Advisor are contingent upon the sale and delivery of the Bonds. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Bond Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Sewer System by not later than nine months following the end of the City's fiscal year (currently ending June 30) (the "Annual Report"), commencing with the report for the fiscal year ended June 30, 2011, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board through the Electronic Municipal Access (EMMA) System. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous continuing disclosure undertakings to provide annual reports or notices of material events.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Authority and the City have covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the Authority's and the City's compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the Authority and the City with respect to certain material facts within the Authority's and the City's knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include certain tax exempt interest, including interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price, or purchase Bonds subsequent to the initial public offering, should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity (the "Reduced Issue Price"), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases a Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor’s basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond’s basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the “Service”) has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the Issuer as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

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

Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Bonds is set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL.

UNDERWRITING

The Bonds will be purchased by Hutchinson Shockey Erley & Co., as underwriter (the "Underwriter"), at an aggregate purchase price of \$14,822,895.14 (consisting of the \$14,715,000.00 aggregate principal amount of the Bonds, plus \$332,442.80 of net original issue premium, less \$224,547.66 of Underwriter's discount).

The initial public offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

OTHER INFORMATION

All summaries and explanations of the Act, the Indenture, the Installment Sale Agreement and the other documents referred to herein are qualified in their entirety by reference to the Act and such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture.

Any statements in this Official Statement involving matters of opinion are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of the Bonds.

Copies of the Indenture and the Installment Sale Agreement are available for inspection at the Principal Corporate Trust Office of the Trustee.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City, including a summary of significant accounting policies, for the fiscal year ended June 30, 2011, are contained in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

APPENDIX A

GENERAL INFORMATION ABOUT THE CITY OF ALAMEDA

The information in this section of the Official Statement is presented as general background data. The Bonds are payable solely from the revenues of the City's Sewer Fund and other sources as described in the Official Statement. The taxing power of the City, the State of California, or any political subdivision thereof is not pledged to the payment of the Bonds.

Overview

The City is a chartered city which was incorporated in 1854. The City is located in Alameda County (the "County") just west of the City of Oakland and approximately 12 miles east of San Francisco. The City consists of an island in the eastern portion of San Francisco Bay approximately six miles long by one and one-half miles wide and part of a peninsula adjacent to the Oakland Airport. The island portion is connected to the East Bay Area by three bridges and a vehicular underwater double barrel tube. Total City area is 22.7 square miles, about 12.4 square miles of which is water area.

The City is a major marine recreational area for Northern California with seven marinas and a private seaport. The City is part of the highly urbanized East Bay, which consists of Alameda and Contra Costa counties. A highly skilled labor force, excellent transportation facilities, renowned educational institutions and available advanced research and development resources contribute to the area's economy.

Governing Body

The City operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, who is appointed by the City Council. All municipal departments operate under the supervision of the City Manager. The Council consists of four members who are elected at large for four-year overlapping terms. The Mayor is elected directly by the people for a four year term. Municipal services provided by the City include police, fire, public works, general government, parks and recreation, sanitary sewer, community development, planning, golf, library and base reuse. Component units of the City include Alameda Municipal Power and the Alameda Housing Authority.

The current members of the City Council and key administrative personnel of the City are listed in the following tables:

CITY OF ALAMEDA City Council Members

Name	Office	Term Expires
Marie Gilmore	Mayor	December 2014
Rob Bonta	Vice Mayor	December 2014
Doug deHaan	Councilmember	December 2012
Beverly Johnson	Councilmember	December 2012
Lena Tam	Councilmember	December 2014

**CITY OF ALAMEDA
Key Administrative Personnel**

Member	Position
John A. Russo	City Manager
Lisa Goldman	Assistant City Manager
Fred Marsh	Controller
Lara Weisiger	City Clerk
Janet Kern	City Attorney

Population

The following table represents the City's population for the decades 1990 and 2000 and the annual estimates for 2003 through 2012:

**CITY OF ALAMEDA
Population**

Year	Population
1990	73,979
2000	72,259
2003	72,612
2004	71,980
2005	71,727
2006	71,558
2007	72,031
2008	72,598
2009	73,166
2010	73,717
2011	72,767
2012	73,400

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Count (as of January 1). Sacramento, California, September 2011. The 1990 and 2000 totals are U.S. Census figures. The 2011 and 2012 totals are City data.

Convenient freeway accessibility and regularly scheduled commuter bus service by Alameda Contra Costa Transit District, which includes linkage with nearby Bay Area Rapid Transit (BART) stations, enable City residents to work in virtually any part of the San Francisco-Oakland Metropolitan Bay Area.

The following table summarizes historical employment and unemployment in the County.

ALAMEDA COUNTY
Civilian Labor Force, Employment and Unemployment
Annual Averages

	2007	2008	2009	2010	2011
Civilian Labor Force					
Employment	717,600	719,100	679,600	669,700	682,000
Unemployment	35,400	47,400	80,000	85,000	78,900
Total	<u>753,000</u>	<u>766,500</u>	<u>759,600</u>	<u>755,200</u>	<u>760,900</u>
Unemployment Rate	4.7%	6.2%	10.5%	11.3%	10.4%

Source: California Employment Development Department, Labor Market Information Division, March 2011 Benchmark.

The following table summarizes historical employment and unemployment in the City.

CITY OF ALAMEDA
Civilian Labor Force, Employment and Unemployment
Annual Averages

	2007	2008	2009	2010	2011
Civilian Labor Force					
Employment	38,800	38,900	36,800	36,200	36,900
Unemployment	1,300	1,700	2,900	3,100	2,800
Total	<u>40,100</u>	<u>40,600</u>	<u>39,700</u>	<u>39,300</u>	<u>39,700</u>
Unemployment Rate	3.2%	4.2%	7.2%	7.8%	7.1%

Source: California Employment Development Department, Labor Market Information Division, March 2011 Benchmark.

The following table summarizes historical numbers of workers in the County, by industry.

ALAMEDA COUNTY
Estimated Number of Wage and Salary Workers by Industry
(in thousands)

	2006	2007	2008	2009	2010*
Total, All Industries	702,400	702,900	692,300	647,000	637,500
Total Farm	800	800	700	700	700
Natural Resources and Mining	200	200	100	—	—
Construction	44,100	43,600	39,900	—	—
Manufacturing	75,600	73,700	72,300	63,500	60,500
Trade, Transportation and Utilities	135,600	137,000	131,800	121,500	118,300
Wholesale Trade	39,700	39,600	38,900	36,100	34,500
Retail Trade	69,300	68,900	65,800	60,700	59,800
Transportation, Warehousing and Utilities	26,600	28,500	27,100	24,700	24,000
Information	16,700	16,000	16,100	14,700	14,000
Financial Activities	35,600	33,300	30,600	27,000	22,900
Professional and Business Services	104,400	108,600	112,900	103,100	104,400
Educational and Health Services	79,100	79,500	83,000	83,800	91,100
Leisure and Hospitality	53,200	54,800	56,300	53,700	54,100
Other Services	23,800	23,700	23,700	22,600	22,900
Government	133,100	131,700	124,600	122,800	118,200

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

*Latest available data.

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding. March 2011 Benchmark.

Largest Employers

The following table sets forth the largest employers in the City as of June 30, 2011:

CITY OF ALAMEDA
Largest Employers

Employer	Number of Employees
UT Starcom Inc.	2,400
City of Alameda	575
Alameda Hospital	492
Celera Corp	490
Associated Third Party Administration	250
Bay Ship & Yard Co	250
College of Alameda	216
Associated Third Party	200
Wingstop	200
Bay View Nursing & Rehab Ctr	180

Source: City of Alameda Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2011.

Building Activity

The following table reflects the five-year history of building permit valuation for the City:

CITY OF ALAMEDA					
Building Permits and Valuations					
(dollars in thousands)					
	2006	2007	2008	2009	2010
Permit Valuation					
New Single-family	\$37,393	\$39,598	\$ 408	\$ 879	\$5,985
New Multi-family	675	380	0	0	0
Res. Alterations/Additions	33,214	24,314	14,510	10,553	11,466
Total Residential	<u>\$71,282</u>	<u>\$64,297</u>	<u>\$14,918</u>	<u>\$11,432</u>	<u>17,451</u>
New Commercial	\$18,780	\$14,517	\$ 0	\$ 0	\$ 0
New Industrial	1,174	3,342	0	0	0
New Other	5,967	6,774	969	727	528
Comm. Alterations/Additions	23,623	22,469	6,928	1,417	1,266
Total Nonresidential	<u>\$49,544</u>	<u>\$47,102</u>	<u>\$7,897</u>	<u>\$2,144</u>	<u>1,794</u>
New Dwelling Units					
Single Family	112	110	2	3	16
Multiple Family	4	2	0	0	0
Total	<u>116</u>	<u>112</u>	<u>2</u>	<u>3</u>	<u>16</u>

Source: Construction Industry Research Board.

Commercial Activity

The City has two central business districts, ten neighborhood commercial districts, a regional shopping center (over 600,000 square feet of retail space), and three community shopping centers (Bridgeside, Harbor Bay Landing, and the Marina Village Shopping Center), each having over 80,000 square feet.

CITY OF ALAMEDA		
Trade Outlets and Taxable Sales		
(in thousands of dollars)		
Year	Permits	Taxable Transactions
2004	2,200	518,685
2005	2,166	536,486
2006	2,104	537,000
2007	2,075	564,457
2008	2,035	630,428
2009 ⁽¹⁾	1,943	359,079

Source: State Board of Equalization.

(1) Latest available full-year data.

Transportation

City streets intersect with an integral component (U.S. Interstate 880) of the freeway complex that links the East Bay with the rest of the Bay Area, the State, and the nation.

Alameda-Contra Costa Transit District buses serving the City also provide scheduled service two miles east to BART, the Bay Area's 75-mile, 34 station mass rapid transit system.

Oakland International Airport is located alongside the City's southern limit; San Francisco International Airport lies to the west across San Francisco Bay 16 miles by freeway.

Community Services and Recreation

The City has one general hospital with capacity of 135 beds and seven convalescent/retirement care centers with over 300 beds. Practicing in the community are approximately 200 physicians/surgeons, numerous dentists, and optometrists.

Four banks and seven savings and loan associations provide financial services at various localities in the City. Among national and statewide banking systems represented are Bank of America, Wells Fargo Bank and Comerica.

The Alameda *Journal*, a member of the Bay News Group, and the Alameda *Sun* are published bi-weekly in the City. The City is conveniently located for access to all San Francisco-Oakland Bay Area print and broadcast communications media.

The Alameda Free Library system includes the Main Library and two branches. The City's Recreation and Parks Department administers fourteen parks, two swim centers, a senior center, a model airfield, a boat launching ramp and a municipal golf course. The City's Chuck Corica Golf Complex consists of two 18-hole, back-to-back courses, coffee shop, pro shop, driving range, and a nine-hole, par three course.

Public educational services within the City are provided by the Alameda Unified School District. Located within the City are seven pre-schools, ten elementary schools, two middle schools, three high schools, one adult college, one community college and several private and parochial schools.

Located along the shoreline is one shoreline park, a state beach, seven small boat marinas and five yacht clubs which support water-oriented sports activities including boating, water-skiing, fishing and swimming.

Median Household Income

Effective Buying Income (EBI) is defined as personal income less personal income tax and non-tax payments, such as fines, fees or penalties. The following table represents the five year history of median household EBI for the City, the County, the State and the United States of America:

City of Alameda, Alameda County, State of California and United States of America Median Household Effective Buying Income

Year	Area	Total Effective Buying Income (000's omitted)	Median Household Effective Buying Income
2005	City of Alameda	\$1,937,230	\$52,350
	Alameda County	34,772,823	52,295
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	City of Alameda	\$1,971,105	\$52,819
	Alameda County	35,772,898	53,171
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2007	City of Alameda	\$2,072,000	\$54,911
	Alameda County	37,572,278	54,688
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Alameda	\$2,110,295	\$56,044
	Alameda County	29,965,000	47,353
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Alameda	\$2,196,838	\$58,598
	Alameda County	40,053,865	57,997
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Alameda	\$2,120,325	\$55,813
	Alameda County	38,097,873	54,734
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Alameda	\$2,159,753	\$55,644
	Alameda County	39,064,683	54,542
	California	814,578,458	47,062
	United States	6,438,704,664	41,253

Source: Nielson Claritas, Inc.

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APPENDIX B

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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APPENDIX C
CITY INVESTMENT POLICY

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INVESTMENT POLICY

I. STATEMENT OF PURPOSE

It shall be the investment policy of the City of Alameda that all funds not required for immediate budgeted expenditures be invested in compliance with this statement as well as applicable federal and state legislation.

Safeguards will be set into place to insure that adequate reserves are established and maintained to provide that cash in sufficient amounts will be available for those immediate expenditures as authorized by the City's budget. Funds so maintained will be deposited in a manner best serving the City.

It will be further recognized that the City has a responsibility to insure the security of its assets and always maintain a level of quality so that the public at large will have the highest confidence that its best interests are being served.

The purpose of this document is to identify various policies and procedures that enhance opportunities for a systematic investment process. The initial step toward a prudent investment policy is to organize and formalize investment related activities. Related activities, which comprise good cash management, include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost effective banking relations, and a short-term borrowing program which coordinates working capital requirements and investment opportunity. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

II. SCOPE

It is intended that this policy cover all short-term operating funds and investment activities under the direct authority of the City. These funds are described in the most current annual financial report and include:

- General Fund
- Capital Projects Fund
- Special Revenue Fund
- Enterprise Fund
- Internal Service Funds
- Fiduciary Funds
- Redevelopment Agency Funds

This investment policy applies to all transactions involving the financial assets and related activities of the foregoing funds.

III. OBJECTIVES

- A. Safety: Safety of principal is the foremost objective of the City, followed by liquidity and yield. Each investment transaction shall seek to first insure that capital losses are avoided, whether they are from securities default or erosion of market value.

Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.

- B. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the City is able to issue short-term notes to meet its operating requirements. Emphasis will be on marketable securities with low sensitivity to market risk.

- C. Yield: The investment portfolio shall be designed to attain a market average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restricts the placement of short term funds.

- D. The investment portfolio shall be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institution.

- E. The City shall adhere to the guidance provided by the "prudent investor rule", which obligates a fiduciary to insure that:

"...investment shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment considering the probable safety of their capital as well as the probable income to be derived."

- F. All participants in the investment process shall act reasonably as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public scrutiny and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio investment return, provided that adequate diversification has been implemented.

- G. Investments are to be made that will bear in mind the responsibility of city government to its citizens. Investments which encourage the betterment of the human condition will be sought. Alternative investments which enhance the quality of life will be given full consideration. Investments which serve to only enrich a few to the detriment of the people will be strictly avoided.

- H. No investment is to be made in a company that receives more than 15% of gross revenues from the production or manufacture of cigarettes, alcohol, or gambling products.

IV. DELEGATION OF AUTHORITY

Article V of the Charter of the City of Alameda places sole custody of the City's funds with the Treasurer. Further, Section 53636 of the Government Code of the State of California provides that money on deposit is deemed to be in the treasury of the City.

Although the responsibility for conducting the City's investment program resides with the Treasurer, the day to day investment function is hereby delegated to the Finance Director who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority for all investment activities.

This procedure is attached hereto and marked as Attachment "A".

V. INVESTMENT ADVISORY COMMITTEE

An Investment Advisory Committee has been formed for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the City Council. The advisory committee shall consist of the City Treasurer, Finance Director (as representative of the City Manager) and the Investment Officer.

The Investment Advisory Committee will meet as needed or as market or economic condition changes to determine general strategies and to monitor results. The committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the target rate of return on investment portfolio. The written investment procedures shall be approved by the investment advisory committee on an annual basis.

Quarterly: The Finance Director with the concurrence of the Treasurer shall submit a quarterly investment report to the City Council. This report will describe all investment transactions during the quarter, compute average yield and average life of the portfolio as well as all required elements of the quarterly report as prescribed by Government Code Section 53646.

VI. INVESTMENT INSTRUMENTS

Investment instruments authorized for purchase include:

- A. United States treasury bills or certificate of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- B. Insured or collateralized certificates of deposit issued by a nationally or state chartered bank or state or federal association. In accordance with California statutes, City deposits including collateralized certificates of deposit shall not exceed the total paid-up capital (to include capital notes and indentures) and surplus of any depository bank, or the total of the net worth of any savings and loan association.
- C. Prime bankers acceptances with maturities less than one hundred eighty days, which are

eligible for purchase by the Federal Reserve System, and are issued by the top fifty banks in the world, or any qualified depository in the State of California. Purchases from any one bank may not exceed thirty percent of the City's investment portfolio.

- D. Securities of government agencies such as the Federal Home Loan Bank, Federal Farm Credit and Federal National Mortgage Association, a maximum of 25% per issuer, and a maximum of 75% in total.
- E. Prime commercial paper with A/PI rating as provided for by a nationally recognized statistical-rating organization (NRSRO). Purchases of commercial paper may not exceed 270 days maturity and no more than 25% of the City of Alameda's portfolio.
- F. Medium term corporate notes with a maximum maturity of five years issued by corporation doing business in the United States which are rated "A" or its equivalent or better by one or more of the following national rating: Moody's, Standard and Poor's, Fitch's or Keefe's. Investment in medium term corporate notes shall not exceed 30% of the City of Alameda's portfolio.
- G. State of California Local Agency Investment Fund.
- H. County Agency Investment Funds, a maximum of 15%.
- I. Repurchase Agreements.
- J. Domestic money market mutual funds registered with the Federal Securities and Exchange Commission (SEC) and which are rated in the highest rating category by a nationally recognized rating service or which only invest in:
 - a) U.S. Government or federal agency securities and repurchase agreement,
 - b) other investment instruments specifically included in the local investment policy, or
 - c) tax exempt obligations.
- K. Other instruments as authorized under Section 53601 and 53634 of the Government Code.
- L. California Asset Management Program (CAMP).
- M. Negotiable Certificates of Deposit, a maximum of 30%.

VII. INVESTMENT TERMS AND CONDITIONS

- A. The following terms and conditions shall apply to the use of repurchase agreements:
 - 1. Securities purchased under the repurchase agreement shall be limited to the securities and qualifications listed above.

2. Securities shall be marked-to-market, and shall be maintained at a value equal to or greater than the cash investment.
3. The market value of the securities that underlay a repurchase agreement shall be valued at 102%.
4. All securities under a repurchase agreement shall be held by a third party custodian or safekeeping agent. Transfer of underlying securities to a counterparty bank's customer book entry account may be used for book entry delivery, and a counterparty bank's trust department or safekeeping department may also be used for physical delivery of the underlying security.
5. The seller of repurchase securities shall not be entitled to substitute securities, except as authorized by the City. New or substitute securities should be reasonably identical to the original securities in terms of maturity, yield, quality and liquidity.
6. As soon as possible, a master purchase agreement will be executed between the City and all trading partners.

B. The following terms and conditions shall apply to the use of commercial paper:

1. Maturities shall be limited to two hundred seventy days or less.
2. Purchase must be of the highest letter and numerical rating as provided for by Moody's or Standard and Poor's or Fitch Financial Services, Inc.
3. Purchases must be limited to corporations organized and operating within the United States, and as a practical matter generally only those corporations operating within the State of California, having total assets in excess of five hundred million dollars, and having an "A" or higher rating for the issuer's debentures, other than commercial paper (as-provided by Moody's or Standard and Poor's rating services).
4. Purchase may not represent more than ten percent of the outstanding paper of an issuing corporation.

C. The following terms and conditions shall apply to the use of negotiable certificates of deposit:

1. Certificates with maturities greater than six months through one year have an "**A**" rating or its equivalent or better as provided for by one of the four following national rating services: Moody's, Standard and Poor's, Fitch's or Keefe's.
2. Certificates with maturities greater than one year and through four years shall have an "**AA**" or its equivalent, or higher rating from one or more of the four following national rating services: Moody's, Standard and Poor's, Fitch's or Keefe's.

D. The following terms and conditions shall apply to the use of medium term corporate notes:

If securities owned by the City are downgraded by either Moody's or S&P to a level below the quality required by this Investment Policy, it shall be the Agency's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

- a. If a security is downgraded two grades below the level required by the City, the security shall be sold immediately.
- b. If a security is downgraded one grade below the level required by this policy and matures within 6 months, the security will be held to maturity. The City Treasurer may determine to sell the security if it is determined that there is a probability of default prior to maturity.
- c. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Council.

VIII. PRUDENCE

The standard of prudence to be used by investment officers shall be the "prudent person rule", and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence will be relieved of personal liability for an individual security credit risk or market price changes, provided that deviations from expectations are reported on a timely fashion, and appropriate action is taken to control adverse developments.

IX. INTERNAL CONTROLS

The City Auditor will establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, segregation of duties, separating transaction authority from accounting and recordkeeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies and code of ethical standards.

X. BANKS AND SECURITIES DEALERS

In selecting financial institutions for the deposit or investment of City funds, the Treasurer will consider the credit rating of the institutions. The Treasurer will continue to monitor financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.

The Treasurer shall approve all financial institutions from whom securities are purchased.

XI. MATURITY

The City will not invest in instruments whose maturities exceed five years at the time of purchase.

It is the intent that investments shall be managed in such a way that any market price losses resulting from interest-rate volatility would be offset by coupon income and current income received from the overall portfolio during a twelve month period.

XII. DIVERSIFICATION

It is the policy of this City to diversify the investment portfolio in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The following strategies and constraints shall apply:

- A. Portfolio maturities will be staggered in a way that avoids undue concentration of assets in specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
- B. Concern for liquidity shall be insured through practices that include covering the next vendor disbursement date and payroll date through maturing investments or United States Treasury bills.
- C. Risks of market price volatility shall be controlled through maturity and issuer diversification.

XIII. RISK TOLERANCE

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity.

- A. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in high grade securities and by diversification.
- B. Market risk, defined as market value fluctuations due to overall changes in market price and rate, shall be mitigated by eliminating the need to sell securities prior to maturity and avoiding the purchase of long term security for the sole purpose of short term speculation.

XIV. OTHER CONSIDERATIONS

- A. All transactions will be executed on a delivery versus payment basis.
- B. Wire Transfers: Whenever possible pre-formatted wire transfers will be used to transfer funds to pre-authorized accounts.
- C. The City will not enter into reverse repurchase agreements, nor trade in options or future

contracts. However, the Investment Advisory Committee will review and make recommendations regarding the future use and application of these instruments.

- D. From time to time a competitive bid process, utilizing a minimum of three financial institutions deemed eligible by the Treasurer, will be used to place investment purchases.

The City shall transact business only with banks, savings and loans, and with brokers/dealers approved by the Investment Advisory Committee.

- E. In the event of an absence or replacement of the City's Investment Officer, the authority to invest in all maturities beyond six months shall be regulated by controls and restraining requirements and documented in written investment procedures.

In order to assist in identifying "qualified financial institutions" the Treasurer will forward copies of the City's Investment Policy to those financial institutions with which the City is interested in doing business and require written receipt of the policy.

- F. Safekeeping and Custody

Securities purchased from brokers/dealers shall be held in a third party custodian account, which the City has established for safekeeping. Said securities are to be held in the name of the City with the trustee executing investment transactions as directed by the appropriate City official.

Collateral for time deposit in savings and loans is to be held by the Federal Home Loan Bank. Collateral for time deposits in banks is to be held in the City's name in the bank trust department or by the Federal Reserve Bank.

- G. Confirmation

Receipts for confirmation of purchase of authorized securities must include trade date, pay value, maturity, rate, price, yield, settlement date, description of securities purchased, agency's name, and third party custodian information.

- H. Preference

Where all other factors are equal, as a final consideration the following preference will be given in order:

- a. Institutions principally located in the City
- b. Institutions principally located in the County
- c. Institutions principally located in the State
- d. Institutions principally located in the United States

I. Trust Agreements

The City shall direct the investment activities of trustees. Such direction shall be in keeping with the terms and condition of its trust agreements, applicable law and policies set forth in the Investment Policy. In addition to the acceptable investment instruments listed in Section VI, A thru K, bonds proceeds may be invested in:

- a. Shares in a trust established pursuant to the Government code, Title 1, Division 7 and Chapter 5, investing in securities permitted under Section 53635;
- b. Other investment instruments allowed by State law which comply with requirements imposed by bond insurance and rating agencies.

Certified by:

Kevin Kennedy
City Treasurer

Attachment

ATTACHMENT A
Matrix of Recommended Segregation of
Responsibilities of the Treasury Functions

Function		Responsibilities
1.	Authorization of investment transactions:	
	<ul style="list-style-type: none"> • Format Investment Policy should be prepared by 	Treasurer*
	<ul style="list-style-type: none"> • Submitted to 	Governing Body
	<ul style="list-style-type: none"> • Reviewed investment transactions approved at the end of each quarter 	Treasurer
2.	Execution of Investment transactions***	Treasurer delegates to Controller and Supervising Accountant (Revenues)
3.	Timely recording of investment transactions:	
	<ul style="list-style-type: none"> • Recording of investment transactions in the Treasurer's records 	Investment Officers (Supervising Accountant - Revenues)
	<ul style="list-style-type: none"> • Recording of investment transactions in the accounting records 	Supervising Accountant (General Ledger)
4.	Verification of investment, i.e. match broker confirmation to treasurer's records	Treasurer or Supervising Accountant (Revenues)
5.	Safeguarding of Assets and Records:	
	<ul style="list-style-type: none"> • Reconciliation of Treasurer's records to the Accounting Records 	Supervising Accountant ** (General Ledger)
	<ul style="list-style-type: none"> • Reconciliation of Treasurer's Records to bank statements and safekeeping records 	Supervising Accounting ** (General Ledger)
	<ul style="list-style-type: none"> • Review of (a) financial institution's financial condition, (b) safety, liquidity, and potential yields of investment instruments, and (c) reputation and financial conditions of investment brokers 	Treasurer
	<ul style="list-style-type: none"> • Treasurer's Vault 	Treasurer
	<ul style="list-style-type: none"> • Periodic review of collateral should be performed 	Treasurer
6.	Management's periodic review of the investment portfolio as prepared by the Treasurer – key areas that should be reviewed are investment types, purchase price, market values, maturity dates and investment yields as well as conformance to stated investment policy. All transactions, excluding purchases of certificates of deposits, are on delivery versus payment basis to a third party.	Independently assigned reviewing authority.***

* With input from Controller via consultation

** This individual may be an Assistant Finance Director or Supervising Accountant

*** Personnel assigned to this task should have the capabilities commensurate with the responsibilities. This position requires knowledge of investments and familiarity with the formal Investment Policy.

APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Installment Sale and the Indenture of Trust prepared for the Revenue Bonds. The following also includes definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof. Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. Copies of said documents are available from the City and from the Trustee.

DEFINITIONS

“Acquisition Agreement” means that certain Acquisition Agreement, dated as of October 1, 2012, by and between the City, as seller, and the Authority, as purchaser, pursuant to which the City will sell the 1995 Project to the Authority for re-sale to the City under the Installment Sale Agreement, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“Acquisition and Construction” means, with respect to any portion of the 2012 Project, the acquisition, construction, improvement, equipping, renovation, remodeling or reconstruction thereof.

“Act” means Articles 1 through 4 (commencing with section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

“Additional Payments” means the payments so designated and required to be paid by the City pursuant to the Installment Sale Agreement.

“Agreement” means that certain Joint Exercise of Powers Agreement, dated July 31, 2012, by and between the City and the California Municipal Finance Authority, creating the Authority, together with any amendments thereof and supplements thereto.

“Authority” means the City of Alameda Financing Authority, a joint powers authority duly organized and existing under the laws of the State.

“Authorized Representative” means: (a) with respect to the Authority, its Chairman, Vice Chairman, Executive Director, Treasurer or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Chairman and filed with the City and the Trustee; and (b) with respect to the City, its Mayor, City Manager, Treasurer, Controller or any other person designated as an Authorized Representative of the City by a Written Certificate of the City signed by its Mayor and filed with the Trustee.

“Board of Directors” means the governing body of the Authority.

“Bond Counsel” means (a) Quint & Thimmig LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

“Bond Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

"Bond Year" means each twelve-month period extending from August 2 in one calendar year to August 1 of the succeeding calendar year, both dates inclusive; provided that the first Bond Year shall begin on the Closing Date and shall end on August 1, 2013.

"Bonds" means the City of Alameda Financing Authority (Alameda County, California) Sewer Revenue Bonds, 2012 Series A, authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture.

"Business Day" means any day, other than a Saturday or Sunday or a day on which commercial banks in New York, New York, Los Angeles, California, or San Francisco, California, or the Trust Office, are required or authorized by law to close or a day on which the New York Stock Exchange is closed.

"City" means the City of Alameda, a municipal corporation and chartered city organized under the laws of the State.

"Closing Date" means the date of delivery of the Bonds to the Original Purchaser.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable proposed, temporary and final regulations promulgated under the Code.

"Completion Date" means, with respect to any component of the 2012 Project, the date on which the Authority files a Written Certificate with the City and the Trustee stating that the Acquisition and Construction of such component of the 2012 Project has been completed pursuant to the Indenture.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate executed by the City and dated the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority, initial fees and expenses of the Trustee and its counsel, title insurance premiums, appraisal fees, compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"County" means the County of Alameda, a public body corporate and politic organized under the laws of the State.

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

(a) The principal components of the Installment Payments and of payments with respect to Parity Obligations coming due and payable by their terms in such period; and

(b) The interest component of the Installment Payments and of payments with respect to Parity Obligations which would be due during such period on the aggregate principal amount of the Installment Payments and payments with respect to Parity Obligations that would be unpaid in such period if the Installment Payments and payments with respect to Parity Obligations are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Installment Payments and payments with respect to Parity Obligations no longer unpaid.

"Defeasance Obligations" means (a) cash, (b) direct non-callable obligations of the United States of America, (c) securities fully and unconditionally guaranteed as to the timely payment of principal and

interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, (d) Refcorp interest strips, (e) CATS, TIGRS, STRPS, and (f) defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination of the foregoing).

"Engineer's Report" means a report prepared and signed by an Independent Engineer.

"Escrow Agreement" means that certain escrow deposit and trust agreement, dated as of the Closing Date, by and between the City and the Escrow Bank, relating to the refunding of the 1995 Certificates.

"Escrow Bank" means The Bank of New York Mellon Trust Company, N.A., as escrow bank under the Escrow Agreement.

"Escrow Fund" means the fund by that name held by the Escrow Bank under the Escrow Agreement.

"Event of Default" means, (a) with respect to the Bonds, any of the events described in the Indenture, and (b) with respect to the Installment Sale Agreement, any of the events described in the Installment Sale Agreement.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

"Government Obligations" means, with respect to the Bonds: (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("U.S. Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidence of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligator and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"Gross Revenues" means all user fee charges derived by the City from, the ownership and operation of the Sewer System, including but not limited to investment earnings thereon.

"Indenture" means the Indenture of Trust, dated as of October 1, 2012, by and between the Authority and the Trustee as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions hereof.

“Independent Accountant” means any certified public accountant or firm of certified public accountants, appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

“Independent Counsel” means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Authority, the Trustee or the City.

“Independent Engineer” means any registered engineer or firm of such registered engineers, of national reputation, appointed by the City and who, or each of whom: (a) is judged by the City to have experience in matters relating to the engineering matters relating to Sewer System enterprises; (b) is in fact independent and not under domination of the Authority or the City; (c) does not have any substantial interest, direct or indirect, with the Authority or the City other than as purchaser of the Bonds or any Parity Obligations; and (d) is not connected with the Authority or the City as an officer or employee of the Authority or the City, but who may be regularly retained to make reports to the Authority or the City.

“Information Services” means the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board, (at <http://emma.msrb.org>); provided, however, in accordance with then current guidelines of the Securities and Exchange Commission, shall mean such other organizations providing information with respect to the Bonds shall mean such other organizations providing information with respect to the redemption of bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“Installment Payment Date” means the twenty-fifth (25th) day of each January and July during the Term of the Installment Sale Agreement, commencing January 25, 2013.

“Installment Payments” means the amounts payable by the City pursuant to the Installment Sale Agreement.

“Installment Sale Agreement” means the Installment Sale Agreement, dated as of October 1, 2012, by and between the Authority, as seller, and the City, as purchaser, of the 1995 Project and the 2012 Project, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

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

“Interest Payment Date” means each February 1 and August 1, commencing February 1, 2013.

“Maintenance and Operation Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Sewer System, including but not limited to (a) costs of electricity and other forms of energy supplied to the Sewer System, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Sewer System in good repair and working order, (c) the reasonable administrative costs of the City attributable to the operation and maintenance of the Sewer System, and (d) the City’s obligations under (i) that certain Loan Contract No. 740-2965, by and between the State Water Resources Control Board and the City, dated as of March 30, 1987; (ii) that certain Loan Contract No. 5-818-550-0, by and between the State Water Resources Control Board and the City, dated as of February 8, 1996; (iii) that certain Loan Contract No. 7-818-550-0, by and between the State Water Resources Control Board and the City, dated as of March 10, 1998, as amended as of May 12, 1999; (iv) that certain Loan Contract No. 8-833-550-0, by and between the State Water Resources Control Board and the City, dated as of June 21, 1999; and (v) that certain Agreement No. 02-823-550-0, by and between the State Water Resources Control Board and the City, dated as of September 16, 2002; but in all cases excluding (i) debt service payable on all other obligations incurred by the City with respect to the Sewer System including but not limited to the Installment Payments and any Parity Obligations, (ii) depreciation,

replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Maximum Aggregate Annual Debt Service" means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Bond Year with respect to the Installment Sale Agreement and all Parity Obligations outstanding.

"Moody's" means Moody's Investors Service, its successors and assigns.

"Net Revenues" means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Maintenance and Operation Costs becoming payable during such period.

"1995 Certificates" means the \$5,850,000 Certificates of Participation (1995 Sewer System Refinancing and Improvement Project), evidencing direct, undivided fractional interest thereof in installment payments to be made by the City under the 1995 Installment Sale Agreement, of which \$2,160,000 is currently outstanding.

"1995 Installment Sale Agreement" means that certain Installment Sale Agreement, dated as of December 1, 1995, by and between the Authority, as seller, and the City, as purchaser.

"1995 Project" means the land, improvements and other property financed and refinanced from the proceeds of the 1995 Certificates described more fully in the Installment Sale Agreement and by this reference incorporated herein.

"Original Purchaser" means the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including Bonds (or portions thereof) described in the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner," whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

"Parity Obligations" means any leases, loan agreements, installment sale agreements, bonds, notes, interest rate swap agreements, currency swap agreements, forward payment agreements, futures, or contracts providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, or contracts to exchange cash flows or a series of payments, or contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, currency, rate, spread, or similar exposure (except termination payments relating thereto which shall be payable on a subordinate basis) or other obligations of the City payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Installment Payments, entered into or issued pursuant to and in accordance with the Installment Sale Agreement.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein, but only to the extent that the same are acquired at Fair Market Value (provided the Trustee may rely upon the Request of the Authority directing investment under the Indenture as a determination that such investment is a Permitted Investment):

(a) Government Obligations.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
2. U.S. Farmers Home Administration (FmHA)
Certificates of Beneficial Ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration
Participation Certificates
6. Government National Mortgage Association (GNMA or Ginnie Mae)
GNMA—guaranteed mortgage-backed bonds
GNMA—guaranteed pass-through obligations
7. U.S. Maritime Administration
Guaranteed Title XI financing
8. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies which are not backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
Participation Certificate
Senior debt obligations
3. Federal National Mortgage Association (FNMA or Fannie Mae)
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or Sallie Mae)
Senior debt obligations
5. Resolution Funding Corp. (REFCORP) obligations
6. Farm Credit System
Consolidated systemwide bonds and notes

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, which invest solely in Federal Securities,

if rated by S&P, having a rating at the time of investment of AAAM-G; and if rated by Moody's having a rating at the time of investment of Aaa, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries provide investment advisory or other management services.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. Such certificates must be issued by commercial banks or savings and loan associations (including the Trustee or its affiliates). The collateral must be held by a third party and the Bondholders must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC or secured at all times by collateral described in (a) and/or (b) above.

(g) Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P.

(h) Federal funds or bankers acceptances with a maximum term of 180 days of any bank which has an unsecured, uninsured and unguaranteed obligation rating at the time of investment of "Prime-1" or better by Moody's and "A-1" or better by S&P.

(i) The Local Agency Investment Fund of the State, created pursuant to 16429.1 of the California Government Code.

(j) The County pooled investment fund.

(k) Municipal obligations rated "A" or higher by S&P.

(l) Other forms of investments that satisfy the City's Statement of Investment Policy as of the time of investment.

"Plans and Specifications" means, with respect to the 2012 Project or any component thereof, the plans and specifications relating thereto filed by the City with the Authority pursuant to the Installment Sale Agreement.

"Principal Account" means the account by that name established in the Bond Fund pursuant to the Indenture.

"Project" means, collectively, the 1995 Project and the 2012 Project.

"Project Fund" means the fund by that name established pursuant to the Indenture.

"Qualified Reserve Fund Credit Instrument" means one or more letters of credit or other forms of guarantee from a financial institution the long-term unsecured obligations of which are rated at the time of purchase not less than "Aaa" by Moody's and "AAA" by S&P or surety bonds or bond insurance policies issued by companies the long-term obligations of which are rated at the time of purchase not less than "Aaa" by Moody's and "AAA" by S&P, in lieu of or in substitution for all or any portion of the moneys then constituting the Reserve Requirement. Any such letter of credit, surety bond, bond insurance policy or other form of guarantee shall provide that the Trustee is entitled to draw amounts thereunder when required for the purposes of making transfers from the Reserve Account to the Installment Payment Account in the event of a deficiency in any such account. Upon deposit by the Authority with the Trustee of any such letter of credit, surety bond, bond insurance policy or other form of guarantee, the Trustee shall withdraw from the Reserve Account and transfer to the City for deposit in the Project Fund moneys in an amount equal to the maximum limits or principal amount, as applicable, of such letter of credit, surety bond, bond insurance policy or other form of guarantee.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

"Registration Books" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

"Reserve Account" means the account by that name in the Bond Fund established pursuant to the Indenture.

"Reserve Requirement" means, as of the Closing Date, an amount equal to the least of (a) maximum amount of annual Debt Service coming due and payable in the current or any future Bond Year, (b) 125% of average annual Debt Service, and (c) 10% of the par amount of the Bonds.

"Revenues" means (a) all amounts received by the Authority or the Trustee pursuant or with respect to the Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments (including both timely and delinquent payments, any late charges, and whether paid from any source) and prepayments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant thr Indenture; but excluding any Additional Payments.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, and its successors.

"Securities Depositories" means The Depository Trust Company, 55 Sewer Street, 50th Floor, New York, NY 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Sewer Fund" means the City's existing sewer system fund, established and held by the City with respect to the Sewer System.

"Sewer System" means any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the disposal or reuse of sewer, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith, including all additions, extensions, expansions, improvements and betterments thereto and equipplings thereof.

"Sinking Account" means the account by that name established in the Bond Fund pursuant to the Indenture.

"State" means the State of California.

"Subordinate Debt" means any obligations of the City payable from and secured by a pledge of and lien upon any of the Net Revenues subordinate to the Installment Payments and any Parity Obligations, entered into or issued pursuant to and in accordance with the Installment Sale Agreement.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

"Term of the Installment Sale Agreement" means the time during which the Installment Sale Agreement is in effect, as provided in the Installment Sale Agreement.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee hereunder as provided in the Indenture.

“Trust Office” means the corporate trust office of the Trustee at 100 Pine Street, Suite 3100, San Francisco, California 94111, or at such other or additional offices as may be specified in writing to the Authority and the City, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“2012 Project” means the land, improvements and other property described more fully in the Installment Sale Agreement, as such description may be amended by the City from time to time pursuant to and in accordance with the Installment Sale Agreement. The precise identification of the 2012 Project or any component thereof shall be determined by reference to the Plans and Specifications therefor.

2012 Project Costs” means, with respect to the 2012 Project, all costs of the Acquisition and Construction thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

(a) all costs required to be paid to any person under the terms of any agreement for or relating to the Acquisition and Construction of the Project;

(b) obligations incurred for labor and materials in connection with the Acquisition and Construction of the Project;

(c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the Acquisition and Construction of the Project;

(d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper Acquisition and Construction of the Project;

(e) any sums required to reimburse the Authority or the City for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the Acquisition and Construction of the Project;

(f) all financing costs incurred in connection with the Acquisition and Construction of the Project, including but not limited to Costs of Issuance and other costs incurred in connection with the Installment Sale Agreement and the financing of the Project; and

(g) the interest components of the Installment Payments during the period of Acquisition and Construction of the Project, to the extent not paid from the proceeds of the Bonds deposited in the Interest Account pursuant to the Indenture.

“Written Certificate,” “Written Request” and *“Written Requisition”* of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the City by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

INSTALLMENT SALE AGREEMENT

Sale

The Authority agrees to sell the Project to the City, and the City agrees to purchase the Project from the Authority, upon the terms and conditions set forth in the Installment Sale Agreement.

Term of the Installment Sale Agreement

The Term of the Installment Sale Agreement shall commence on the Closing Date, and shall end on the date on which the City shall have paid all of the Installment Payments and all other amounts due and payable hereunder. The provisions of the Installment Sale Agreement are subject in all respects to any other provisions of the Installment Sale Agreement relating to the termination hereof with respect to the Project or any portion thereof.

Title

Upon the Completion Date of each component of the Project, title to such component shall be deemed conveyed to and vested in the City. The Authority and the City shall execute, deliver and cause to be recorded any and all documents necessary to convey such title to the City.

Installment Payments

Obligation to Pay. The City agrees to pay to the Authority, its successors and assigns, but solely from the Net Revenues, as the purchase price of the Project the aggregate principal amount of the Installment Sale Agreement, together with interest on the unpaid principal balance, payable in Installment Payments coming due and payable in the respective amounts and on each Installment Payment Date in the Installment Sale Agreement. The Installment Payments shall be paid by the City to the Trustee, as assignee of the Authority pursuant to the Indenture, in the amounts and at the times as set forth therein.

Effect of Prepayment. In the event that the City prepays all remaining Installment Payments in full pursuant to the Installment Sale Agreement, the City's obligations shall thereupon cease and terminate, including but not limited to the City's obligation to pay Installment Payments therefor under the Installment Sale Agreement; *provided, however,* that the City's obligations to compensate and indemnify the Trustee pursuant the Installment Sale Agreement shall survive such prepayment. In the event that the City prepays the Installment Payments in part but not in whole pursuant to the Installment Sale Agreement, the principal component of each succeeding Installment Payment shall be reduced as provided in the Installment Sale Agreement, and the interest component of each remaining Installment Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the Bonds not redeemed pursuant to the applicable provisions of the Indenture.

Rate on Overdue Payments. In the event the City should fail to make any of the payments required in the Installment Sale Agreement, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment, at the rate of ten percent (10%) per annum.

Assignment. The City understands and agrees that all Installment Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the City assents to such assignment. The Authority directs the City, and the City agrees, to pay to the Trustee at its Trust Office, all amounts payable by the City pursuant to the Installment Sale Agreement.

Application of Gross Revenues; Pledge and Application of Net Revenues

Deposits Into Sewer Fund; Transfers to Make Installment Payments. All of the Gross Revenues shall be deposited by the City immediately upon receipt in the Sewer Fund.

Upon receipt of Gross Revenues, the City shall segregate such amounts as shall be estimated to be required to pay all Maintenance and Operation Costs for the period beginning on such date and ending on

the next anticipated date of receipt of Gross Revenues. Amounts remaining on deposit in the Sewer Fund shall be the Net Revenues.

The City covenants and agrees that all Net Revenues will be held by the City in the Sewer Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority hereunder) and the Bond Owners, and for the benefit of the owners of any Parity Obligations.

Pledge of Net Revenues; Transfers. All of the Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments and all Parity Obligations and, except as otherwise provided in the Installment Sale Agreement, the Net Revenues shall not be used for any other purpose so long as any of the Installment Payments or payments with respect to any Parity Obligations remain unpaid. Such pledge, charge and assignment shall constitute a first lien on the Net Revenues for the payment of the Installment Payments and all Parity Obligations in accordance with the terms of the Installment Sale Agreement.

On or before the fifth Business Day preceding each Interest Payment Date, commencing January 25, 2013, the City shall withdraw from the Sewer Fund (together with similar withdrawals from the Sewer Fund with respect to all Parity Obligations):

(i) and transfer to the Trustee for deposit in the Bond Fund, an amount (other than amounts resulting from the prepayment of the Installment Payments pursuant to the Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), equal to the interest component of the Installment Payment and the interest component of any outstanding Parity Obligations coming due and payable on the next succeeding Interest Payment Date, and the principal component of the Installment Payment and the principal component of any outstanding Parity Obligations coming due and payable on the next succeeding principal payment date, if any, provided that any amounts on deposit in the Bond Fund shall be credited against the City's obligation to make such deposits or transfers therein,

(ii) and transfer to the Trustee for deposit in the Reserve Account (and transfer on a parity to such similar funds or accounts established as reserve funds with respect to Parity Obligations such amounts as are required for the replenishment thereof), the amount, if any, required to increase the amount on deposit in the Reserve Account to the Reserve Requirement and amount, if any, required to increase the amount on deposit in similar funds or accounts established as reserve funds with respect to Parity Obligations, the amount, if any, required to increase the amount on deposit therein to the reserve requirement of such funds or account,

(iii) and pay all other amounts, including Additional Payments, when and as due and payable under the Installment Sale Agreement and under any agreements relating to Parity Obligations, and

(iv) and pay all amounts when and as due and payable with respect to any Subordinate Debt.

Release from Lien. Following the transfers described in the Installment Sale Agreement excess Net Revenues shall be released from the lien of the Installment Sale Agreement and shall be available for any lawful purpose of the City.

Special Obligation of the City

The City's obligation to pay the Installment Payments, the Additional Payments, any other amounts coming due and payable under the Installment Sale Agreement and payments with respect to Parity Obligations shall be a special obligation of the City limited solely to the Net Revenues. Under no circumstances shall the City be required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Installment Payments, the Additional Payments or payments with respect to Parity Obligations, nor shall any other funds or property of the City be liable for the payment of the Installment Payments, the Additional

Payments or payments with respect to Parity Obligations and any other amounts coming due and payable under the Installment Sale Agreement.

The obligations of the City to make the Installment Payments, the Additional Payments and payments with respect to Parity Obligations from the Net Revenues and to perform and observe the other agreements contained herein and under agreements with respect to Parity Obligations shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Sewer System, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee. Until such time as all of the Installment Payments, all of the Additional Payments and all other amounts coming due and payable hereunder shall have been fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Installment Payments, Additional Payments, payments with respect to Parity Obligations or such other amounts, (b) will perform and observe all other agreements contained in the Installment Sale Agreement, and (c) will not terminate the Term of the Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Sewer System, failure to complete the Acquisition and Construction of any Project by the estimated Completion Date thereof, sale of the Sewer System, the taking by eminent domain of title to or temporary use of any component of the Sewer System, commercial frustration of purpose, any change in the tax law or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture or the Installment Sale Agreement.

Nothing contained in the Installment Sale Agreement shall be construed to release the Authority or the Trustee from the performance of any of the agreements on its part contained in the Installment Sale Agreement or in the Indenture, and in the event the Authority or the Trustee shall fail to perform any such agreements, the City may institute such action against the Authority or the Trustee as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's rights hereunder, and in such event the Authority agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City shall so request.

Rate Covenant

The City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Sewer System during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which 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 error in the estimates, to pay the following amounts:

(a) all Maintenance and Operation Costs estimated by the City to become due and payable in such Fiscal Year;

(b) the Installment Payments and all payments required with respect to Parity Obligations;

(c) all other payments required for compliance with the Installment Sale Agreement and the instruments pursuant to which any Parity Obligations shall have been issued; and

(d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

In addition, the City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Sewer System during each Fiscal Year which are sufficient to yield Net Revenues,

including connection charges together with other funds accumulated in the City's Sewer Fund and which are lawfully available to the City for payment of the debt service on the Bonds, at least equal to one hundred twenty percent (120%) of the amounts payable under the preceding paragraph (b) in such Fiscal Year.

Limitations on Future Obligations Secured by Net Revenues

No Obligations Superior to Installment Payments. In order to protect further the availability of the Net Revenues and the security for the Installment Payments and any Parity Obligations, the City agrees that the City shall not, so long as the Installment Payments are not fully paid or any Parity Obligations are outstanding, issue or incur any obligations payable from Net Revenues superior to the Installment Payments or such Parity Obligations.

Parity Obligations. The City further covenants that it will not issue or incur any Parity Obligations unless:

(i) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Obligations are issued or incurred, as shown by the books of the City, plus, at the option of the City, the additional allowance described below, shall have amounted to at least 1.20 times Maximum Aggregate Annual Debt Service immediately subsequent to the incurring of such additional obligations; *provided, however,* that the City may at any time incur Parity Obligations without compliance with the foregoing conditions if the Annual Debt Service for each Fiscal Year during which such Parity Obligations are Outstanding will not be increased by reason of the incurrence of such Parity Obligations.

Either or both of the following items may be added to such Net Revenues for the purpose of applying the restriction contained herein:

(A) An allowance for revenues from any additions to or improvements or extensions of the Sewer System to be constructed with the proceeds of such Parity Obligations, and also for Net Revenues from any such additions, improvements or extensions which have been constructed from any source of funds but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions to be constructed during the first 36-month period following issuance of the proposed Parity Obligations, all as shown by the certificate or opinion of a qualified independent consultant employed by the City, may be added to such Net Revenues for the purpose of applying the restriction contained the Installment Sale Agreement; and/or

(B) An allowance for earnings arising from any increase in the charges made for service from the Sewer System which has become effective prior to the incurring of such Parity Obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of 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 and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent consultant employed by the City.

(ii) A reserve fund may, but is not required to, be funded for such Parity Obligations, with cash or Permitted Investments, which is at least equal to the least of the maximum annual payments to be made with respect to such Parity Obligations, 125% of the average annual payments to be made with respect to such Parity Obligations and 10% of the principal amount of such Parity Obligations.

Subordinate Debt. The City further covenants that the City shall not issue or incur any Subordinate Obligations unless Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not

more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Subordinate Obligations are issued or incurred, as shown by the books of the City shall, after deducting all amounts required for the payment of the Bonds and any Parity Obligations, have amounted to at least 1.0 times the sum of the maximum annual debt service on all Subordinate Obligations outstanding immediately subsequent to the incurring of such additional obligations. An allowance for earnings arising from any increase in the charges made for service from the Sewer System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, may be added in an amount equal to 100% of 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 and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent consultant employed by the City.

Additional Payments

In addition to the Installment Payments, the City shall pay when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund or the Project Fund), and shall pay to the Trustee upon request therefor all compensation for fees due to the Trustee and all of its costs and expenses payable as a result of the performance of and compliance with its duties hereunder or under the Indenture or any related documents, together with all amounts required to indemnify the Trustee pursuant to the Indenture, and all costs and expenses of attorneys, auditors, engineers and accountants. The rights of the Trustee and the obligations of the City the Installment Sale Agreement shall survive the termination of the Installment Sale Agreement and the resignation or removal of the Trustee.

Payment of Rebatable Amounts

The City agrees to furnish all information to, and cooperate fully with, the Authority and its officers, employees, agents and attorneys, in order to assure compliance with the provisions of the Indenture. In the event that the Authority shall determine, pursuant to the Indenture, that any amounts are due and payable to the United States of America thereunder and that neither the Authority nor the Trustee has on deposit an amount of available moneys (excluding moneys on deposit in the funds and accounts established for the payment of the principal of or interest or redemption premium, if any, on the Bonds) to make such payment, the Authority shall promptly notify the City of such fact. Upon receipt of any such notice, the City shall promptly pay to the Trustee from any source of legally available funds, the amounts determined by the Authority to be due and payable to the United States of America under such the Indenture.

Certain Covenants

Maintenance, Utilities, Taxes and Assessments. Throughout the Term of the Installment Sale Agreement, all improvement, repair and maintenance of the Sewer System shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Sewer System, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Sewer System resulting from ordinary wear and tear.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting any Sewer System or the respective interests or estates therein; *provided, however,* that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Installment Sale Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the City that, in its opinion, by nonpayment of any such items, the interest of the Authority hereunder or under the Indenture will be materially adversely affected,

in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

Operation of Sewer System. Throughout the Term of the Installment Sale Agreement, all improvement, repair and maintenance of the Sewer System shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Sewer System, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Sewer System resulting from ordinary wear and tear.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting any Sewer System or the respective interests or estates therein; *provided, however,* that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Installment Sale Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the City that, in its opinion, by nonpayment of any such items, the interest of the Authority hereunder or under the Indenture will be materially adversely affected, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

Insurance. The City shall maintain or cause to be maintained, throughout the Term of the Installment Sale Agreement, but only if and to the extent available at reasonable cost from reputable insurers, liability and casualty insurance in such amounts and against such risks as shall be appropriate for Sewer Systems of like size and with similar facilities as the Sewer System. Such insurance may be maintained as part of or in conjunction with any other insurance carried by the City and may be maintained in whole or in part in the form of self-insurance by the City or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Sewer System shall be used to repair, rebuild or replace such damaged or destroyed portion of the Sewer System. The proceeds of liability insurance shall be applied toward the extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

Eminent Domain Any amounts received as awards as a result of the taking of all or any part of the Sewer System by the lawful exercise of eminent domain, at the election of the City (evidenced by a Written Certificate of the City filed with the Trustee and the Authority) shall either (a) be used for the acquisition or construction of improvements and extension of the Sewer System in replacement of the condemned portions thereof, or (b) applied as a credit against the City's obligation to make the Installment Payments and payments with respect to any Parity Obligations in accordance with written instructions of the City filed with the Trustee.

Records and Accounts The City shall keep proper books of record and accounts of the Sewer System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Sewer System. Said books shall, upon prior request, be subject to the reasonable inspection by the Owners of not less than ten percent (10%) in aggregate principal amount of the Outstanding Bonds, or their representatives authorized in writing. The City shall cause the books and accounts of the Sewer System to be audited annually by an Independent Accountant, not more than one hundred eighty (180) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Bond Owners at the office of the City.

Continuing Disclosure The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Installment Sale Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not constitute an Event of Default hereunder; *provided, however,* that any Participating Underwriter or any Owner or

beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the City of its obligations under the Installment Sale Agreement, including seeking mandate or specific performance by court order.

Against Encumbrances The City will not make any pledge of or place any lien on Gross Revenues or the moneys in the Sewer Fund except as provided herein. The City may at any time, or from time to time, execute Parity Obligations as permitted herein or incur evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of lien on Net Revenues on any moneys in the Sewer Fund as may from time to time be deposited therein, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided herein.

Against Competitive Facilities To the extent permitted by law, the City covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, city or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any Sewer System competitive with the Sewer System. Notwithstanding the foregoing, the City may permit competitive systems where it determines that provision of water service is either geographically, technically or economically prohibitive or where provision of such services is more readily obtained from another provider of such services.

Tax Covenants.

Private Activity Bond Limitation. The City shall assure that proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

No Arbitrage. The City shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

Maintenance of Tax-Exemption.

The City shall take all actions necessary to assure the exclusion of interest with respect to the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

Disclaimer of Warranties; Access

Disclaimer of Warranties. The Authority and the Trustee make no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Project, or any other representation or warranty with respect to the Project. In no event shall the Authority or the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising out of the Installment Sale Agreement or the Indenture for the existence, furnishing, functioning or City's use of the Project.

Access to the Sewer System. The City agrees that the Authority and the Trustee, and any duly authorized representative thereof, shall have the right at all reasonable times to enter upon and to examine and inspect the Sewer System. The City further agrees that the Authority and the Trustee, and any duly

authorized representative thereof, shall have such rights of access to the Sewer System as may be reasonably necessary to cause the proper maintenance of the Sewer System in the event of failure by the City to perform its obligations hereunder.

Release and Indemnification Covenants. The City shall and agrees to indemnify and save the Authority and the Trustee and their respective officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Sewer System by the City, (b) any breach or default on the part of the City in the performance of any of its obligations under the Installment Sale Agreement, (c) any negligence or willful misconduct of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Sewer System, (d) any act or negligence of any sublessee of the City with respect to the Sewer System, (e) the Acquisition and Construction of the Project or the authorization of payment of the Project Costs, (f) the performance by the Trustee of its duties and obligations under the Indenture, including any duties referred to in Section 8.12 of the Indenture, (g) the presence on, under or about, or release from, the Sewer System of any substance, material or waste which is, or which becomes, regulated or classified as hazardous or toxic under State, federal or local law, or (h) the offer, sale and issuance of the Bonds. No indemnification is made under the Installment Sale Agreement for adjudicated willful misconduct or negligence by the Authority or the Trustee, or their respective officers, employees, successors or assigns. The rights of the Trustee and the obligations of the City under Section 6.3 of the Installment Sale Agreement shall survive the termination of the Installment Sale Agreement and the resignation or removal of the Trustee.

Non-Liability of Authority for Sewer System Obligations. The Authority and its successor and assigns shall have no obligation and shall incur no liabilities or debts whatsoever for the obligations, liabilities and debts of the City incurred in connection with the Sewer System.

Assignment, Sale and Amendment

Assignment by the City. The obligations of the City under the Installment Sale Agreement may not be assigned by the City.

Sale or Other Disposition of Sewer System. Except as provided herein, the City covenants that the Sewer System shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole; *provided, however,* the City may lease the Sewer System to a related public entity that (a) assumes all liabilities of the City with respect to the Sewer System, and (b) covenants to maintain Gross Revenues sufficient to operate and maintain the Sewer System and duly provide for the punctual payment of all obligations assumed by such related public entity in connection with such lease including, but not limited to, the Installment Payments hereunder. Neither the Net Revenues nor any other funds pledged or otherwise made available to secure payment of the Installment Payments shall be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed or used except as authorized by the terms of the Installment Sale Agreement. The City shall not enter into any agreement which impairs the operation of the Sewer System or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments, or which otherwise would impair the rights of the Bond Owners and the owners of any Parity Obligations with respect to the Net Revenues. If any substantial part of the Sewer System shall be sold, the payment therefor shall either (a) be used for the acquisition or construction of improvements, extensions or replacements of Project constituting part of the Sewer System, or (b) to the extent not so used, be paid to the Trustee to be applied to prepay the Installment Payments or any Parity Obligations, in accordance with written instructions of the City filed with the Trustee.

Amendment of Installment Sale Agreement. The City and the Authority shall have the right to modify or amend the Installment Sale Agreement without the consent of any of the Bond Owners or any of the owners of Parity Obligations, but only if such amendment or modification does not cause interest represented by the Bonds to be includable in gross income for federal income tax purposes in the opinion of Bond Counsel, and only if such amendment or modification does not materially adversely affect the interests of the Owners of the Bonds in the opinion of Bond Counsel, and only if such amendment or modification is for any one or more of the following purposes:

- (a) to provide for the issuance of Parity Obligations pursuant to the Installment Sale Agreement;

(b) to add to the covenants and agreements of the City contained in the Installment Sale Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;

(c) to cure any ambiguity, or to cure, correct or supplement any defective provision contained herein, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable; or

(d) to amend any provision thereof for the purpose of complying with the applicable requirements of the Tax Code.

Events of Default and Remedies

Events of Default Defined. The following events shall be Events of Default under the Installment Sale Agreement:

(a) Failure by the City to pay any Installment Payment when and as the same become due and payable hereunder.

(b) Failure by the City to pay any Additional Payment when due and payable hereunder, and the continuation of such failure for a period of ten (10) days.

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee; *provided, however*, that if the City shall notify the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such thirty (30) day period, such failure shall not constitute an Event of Default hereunder if the City shall commence to cure such failure within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(e) The occurrence and continuation of any payment event of default under and as defined in the instruments authorizing the issuance of any Parity Obligations or any event that allows the acceleration of Parity Obligations.

Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Trustee as assignee of the Authority shall have the right, at its option and without any further demand or notice, but subject in all respects to the provisions of the Indenture, to:

(a) declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the net effective rate of interest per annum then borne by the Outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable;

(b) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under the Installment Sale Agreement; and

(c) as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners hereunder, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged hereunder, with such powers as the court making such appointment shall confer.

The provisions of the preceding clause (a), however, are subject to the condition that if, at any time after the principal components of the unpaid Installment Payments shall have been so declared due and payable pursuant to the preceding clause (a), and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the net effective rate of interest per annum then borne by the Outstanding Bonds, and the reasonable expenses of the Trustee (including any fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) shall have been made good, then, and in every such case, with the written consent of the Trustee, shall rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. As provided in the Installment Agreement, the Trustee shall be required to exercise the remedies provided herein in accordance with the Indenture.

No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Sale Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in the Installment Sale Agreement it shall not be necessary to give any notice, other than such notice as may be required in the Installment Sale Agreement or by law.

Agreement to Pay Attorneys' Fees and Expenses. In the event either party to the Installment Sale Agreement shall default under any of the provisions hereof and the nondefaulting party, the Trustee or the Owner of any Bonds should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party, the Trustee or such Owner, as the case may be, the reasonable fees of such attorneys and such other expenses so incurred.

No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Installment Sale Agreement shall be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Trustee and Bond Owners to Exercise Rights. Such rights and remedies as are given to the Authority under the Installment Sale Agreement have been assigned by the Authority to the Trustee under the Indenture, to which assignment the City consents. Such rights and remedies shall be exercised by Trustee and the Owners of the Bonds as provided in the Indenture.

Rights of the Owners of Parity Obligations. Notwithstanding anything in the Installment Sale Agreement to the contrary, it is acknowledged and agreed that the rights of the Trustee and the Bond Owners hereunder in and to the Net Revenues and the Sewer System shall be exercised on a parity and proportionate basis with the rights of the owners of any Parity Obligations and any fiduciary acting for the benefit of such owners. The provisions of the Installment Sale Agreement, and the provisions of any instruments authorizing the issuance of any Parity Obligations, shall be construed in accordance with the foregoing sentence.

INDENTURE

Establishment and Application of Costs of Issuance Fund.

The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On November 2, 2012, or upon the earlier Written Request of the Authority, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the City for deposit in the Project Fund and the Costs of Issuance Fund shall be closed.

Project Fund.

Except as otherwise provided in the Indenture, moneys in the Project Fund shall be used solely for the payment of the Project Costs. The Trustee shall disburse moneys in the Project Fund from time to time to pay Project Costs (or to reimburse the Authority or the City for payment of Project Costs) upon receipt by the Trustee of a Written Requisition of the Authority or the City which: (A) states with respect to each disbursement to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment will be made, (iii) the amount to be disbursed, (iv) that each obligation mentioned therein is a proper charge against the Project Fund and has not previously been disbursed by the Trustee from amounts in the Project Fund, (v) that all conditions precedent set forth in the Installment Sale Agreement with respect to such disbursement have been satisfied, and (vi) that the amount of such disbursement is for a Project Cost; (B) specifies in reasonable detail the nature of the obligation; and (C) is accompanied by a bill or statement of account (if any) for each obligation. The Trustee may conclusively rely on the information contained in any Written Requisition and shall have no responsibility with respect to the application of any funds disbursed in accordance with such Written Requisition. Upon the filing with the Trustee of a Written Certificate of the Authority stating that the Project has been completed or that all Written Requisitions intended to be filed by the Authority and the City have been filed, the Trustee shall withdraw all amounts then on deposit in the Project Fund and transfer such amounts to the Bond Fund and the Project Fund shall be closed.

Revenues; Funds and Accounts; Payment of Principal and Interest

Pledge and Assignment; Bond Fund. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the rights of the Authority in the Installment Sale Agreement (other than the rights of the Authority under Sections 4.9, 6.3 and 8.4 thereof). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Installment Sale Agreement.

The assignment of the Installment Sale Agreement to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting thereunder shall be subject to the provisions of the Indenture. The Trustee shall not be responsible for any representations, warranties, covenants or obligations of the Authority.

Subject to the Indenture, all Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under the Installment Sale Agreement to be deposited in the Redemption Fund shall be promptly deposited in such Fund. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

The Trustee shall provide written notice to the City, at least ten Business Days preceding each Interest Payment Date, of the amount of Revenues, derived from Installment Payments as required by the Installment Sale Agreement, due to the Trustee on such Interest Payment Date, taking into account any investment earnings which shall be applied as a credit against such required payment. If, on the 5th Business Day preceding each Interest Payment Date, the Trustee is not in receipt of the total amount due to the Trustee on such Interest Payment Date, the Trustee shall provide a second similar notice to the City and promptly notify the Controller by telephone. Notwithstanding the foregoing, the failure of the Trustee to provide either of such notices shall in no way relieve the City of its obligation to make all Installment Payments as required by the Installment Sale Agreement.

Allocation of Revenues. On each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding.

(b) The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date.

(c) The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any, pursuant to the Indenture.

(d) The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

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

Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

Application of Sinking Account. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to the Indenture.

Application of Reserve Account. All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (a) paying interest on or principal of the Bonds, when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, (b) paying the redemption price of any Term Bonds to be redeemed pursuant to the Indenture in the event that amounts on deposit in the Sinking Account are not sufficient for such purpose, and (c) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds shall be retired hereunder or provision made therefor pursuant to the Indenture, all

moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Installment Payments. In the event of any deficiency in the Reserve Account (whether due to a payment therefrom or due to the fluctuation in market value of securities credited thereto, or otherwise) as of the fifteenth (15th) day of the month preceding any Interest Payment Date, the Trustee shall promptly notify the City in writing of the amount of such deficiency.

At any time, moneys on deposit in the Reserve Account may be substituted by the Authority with a Qualified Reserve Fund Credit Instrument, in an amount equal to the Reserve Requirement, upon presentation to the Trustee of such Qualified Reserve Fund Credit Instrument. Upon such substitution, the Trustee shall transfer amounts on deposit in the Reserve Account to the City for deposit in Project Fund, prior to the Completion Date, and thereafter to the Bond Fund up to an amount equal to the maximum limits or principal amount, as applicable, of such letter of credit, surety bond, bond insurance policy or other form of guarantee.

Application of Redemption Fund. The Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds to be redeemed pursuant to the Indenture; *provided, however,* that at any time prior to giving notice of redemption of any such Bonds, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Investments

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments maturing or available on or before the date on which they are anticipated to be used. Such investments shall be directed by the Authority pursuant to a Written Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in the money market fund set forth in the letter of authorization and direction executed by the Authority and delivered to the Trustee. If no specific money market fund had been specified by the Authority, the Trustee shall make a request to the Authority for investment directions and, if no investment directions are provided, such amount shall be held in cash, uninvested until specific investment directions are provided by the Authority to the Trustee. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. To the extent investments are registrable, such investments shall be registered in the name of the Trustee. Proceeds deposited in the Reserve Account shall not be invested in Permitted Investments described in subsection (i) or (j) of the definition thereof.

All interest or gain derived from the investment of amounts in Fund shall be retained therein. All interest or gain derived from the investment of amounts in Costs of Issuance Fund shall be retained therein. All interest or gain derived from the investment of amounts in Reserve Account, unless required to increase the amount therein to the Reserve Requirement, shall be transferred when received to the Interest Account. All interest or gain derived from the investment of amounts in Interest Account shall be retained therein. All interest or gain derived from the investment of amounts in any other funds or accounts established hereunder shall be transferred when received to the Interest Account.

For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

Such investments shall be valued by the Trustee not less often than quarterly, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored no later than the succeeding valuation date. Investments purchased with funds on deposit in the Reserve Account shall have a term to maturity of not greater than five years.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority with account transaction statements as provided herein which shall include detail for all investment transactions made by the Trustee hereunder.

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

All moneys held by the Trustee shall be held in trust, but need not be segregated from other funds unless specifically required by the Indenture. Except as specifically provided in the Indenture, the Trustee shall not be liable to pay interest on any moneys received by it, but shall be liable only to account to the Authority for earnings derived from funds that have been invested.

The Authority covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Code) at Fair Market Value.

Investments in the Reserve Fund shall be valued at fair market value and the Trustee shall be deemed to have complied with such valuation to the extent it utilized an automated pricing service through its trust accounting system. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code and (unless valuation is undertaken at least annually) investments in the Reserve Account shall be valued by the Authority at their present value (within the meaning of section 148 of the Code).

Particular Covenants

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

No Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

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

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

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Installment Sale Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the City, during business hours and under reasonable circumstances. The Trustee shall deliver a monthly accounting of all funds and accounts except for any fund or account which has a balance of \$0.00 and has not had any activity since the last reporting date. The Trustee shall establish such other funds and accounts as it deems necessary to carry out its duties under the Indenture.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part.

Tax Covenants.

No Arbitrage. The Authority shall not take, or permit to be taken by the Trustee, the City or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

Rebate Requirement. The Authority shall cause the City to take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investments earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

Private Activity Bond Limitation. The Authority shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(c) of the Code or the private loan financing test of section 141(b) of the Code.

Federal Guarantee Prohibition. The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Maintenance of Tax Exemption. The Authority shall take any and all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

Installment Sale Agreement. The Trustee shall promptly collect all amounts due from the City pursuant to the Installment Sale Agreement. Subject to the provisions of the Indenture, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Installment Sale Agreement.

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

Continuing Disclosure. Pursuant to the Installment Sale Agreement, the City has undertaken all responsibility for compliance with continuing disclosure requirements and the Authority shall have no liability to the holders of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default, however, any Participating Underwriter

or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

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

Events of Default and Remedies

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

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

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; *provided, however,* that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such thirty (30) day period, such default shall not constitute an Event of Default hereunder if the Authority shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The occurrence and continuation of an event of default under and as defined in the Installment Sale Agreement.

Remedies Upon Event of Default. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and shall at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, upon notice in writing to the Authority and the City, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the City shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable fees, charges and expenses (including those of its attorneys) of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, the City and the Trustee, or the Trustee if such declaration was made by the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

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

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

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

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds, the Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would expose it to liability.

Limitation on Bond Owners' Right to Sue. Notwithstanding any other provision hereof, no Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Sale Agreement or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the

powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

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

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

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

Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

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

Parties Interested Herein. Nothing in the Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Authority or the Trustee, their officers, employees and agents, and the Owners any right, remedy or claim under or by reason of the Indenture, or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the City, the Authority or the Trustee, their officers, employees and agents, and the Owners.

Modification or Amendment of the Indenture

Amendments Permitted.

(a) The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into. No such

modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

(b) The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

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

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

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

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

(v) to facilitate the issuance of Parity Obligations by the City pursuant to the Installment Sale Agreement.

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

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

(e) Notice of any modification hereof or amendment hereto shall be given by the Authority to each rating agency which then maintains a rating on the Bonds, at least fifteen (15) days prior to the effective date of the related Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in

all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

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

Amendment of Particular Bonds. The provisions of the Indenture shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by him.

Defeasance

Discharge of Indenture. Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority:

(a) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem such Bonds; or

(c) by delivering to the Trustee, for cancellation by it, all of such Bonds.

If the Authority shall also pay or cause to be paid all other sums payable hereunder by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under this Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under the Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

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

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

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

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Obligations, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above).

APPENDIX E

FORM OF FINAL OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

Board of Directors of the
City of Alameda Financing Authority
300 Centennial Way
Alameda, California 92780

OPINION: \$14,715,000 City of Alameda Financing Authority (Alameda County, California) |
Sewer Revenue Bonds, 2012 Series A

Members of the Board of Directors:

We have acted as bond counsel in connection with the delivery by the City of Alameda Financing Authority (the "Authority") of \$14,715,000 aggregate principal amount of the bonds of the Authority designated the "City of Alameda Financing Authority (Alameda County, California) Sewer Revenue Bonds, 2012 Series A" (the "Bonds"), pursuant to the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law"), and pursuant to an indenture of trust, dated as of October 1, 2012 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, and a resolution of the governing body of the Authority adopted on May 3, 2012. The Bonds are secured by Revenues as defined in the Indenture, including installment payments (the "Installment Payments") made by the City of Alameda (the "City") under an installment sale agreement, dated as of October 1, 2012 (the "Installment Sale Agreement"), by and between the Authority, as seller, and the City, as purchaser. We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the City contained in the Indenture and the Installment Sale Agreement and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The Authority is a joint exercise of powers agency and public entity duly organized and existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

5. The Installment Sale Agreement has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

6. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Installment Sale Agreement and to perform the agreements on its part contained therein.

7. The Installment Sale Agreement has been duly authorized, executed and delivered by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

8. The Installment Sale Agreement establishes a valid first and exclusive lien on and pledge of the Net Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Installment Sale Agreement, in accordance with the terms of the Installment Sale Agreement.

9. Subject to the Authority's and the City's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

10. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Installment Sale Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

With respect to the opinions expressed herein, the enforceability of the Installment Sale Agreement is subject to the limitations on the imposition of certain fees and charges by the City related to its municipal water system under Articles XIII C and XIII D of the California Constitution. In addition, the rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Authority, the City and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF ALAMEDA (the "City") in connection with the issuance of by the City of Alameda Financing Authority (the "Authority") of its \$14,715,000 City of Alameda Financing Authority (Alameda County, California) Sewer Revenue Bonds, 2012 Series A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of October 1, 2012 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Bonds shall be secured by a pledge, charge and lien upon Net Revenues (as such term is defined in the Indenture). Pursuant to Section 5.6 of that certain Installment Sale Agreement, dated as of October 1, 2012, by and between the Authority and the City, the Agency covenants and agrees as follows:

Section 1. 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 1, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

"*Annual Report*" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean the City or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

"*EMMA*" or "*Electronic Municipal Market Access*" means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"*Listed Events*" shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

"*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 which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Participating Underwriter*" shall mean any original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2010-11 Fiscal Year, which is due not later than March 31, 2012, file with EMMA, in a

readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* 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), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

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

(a) *Financial Statements.* Audited financial statements of the City for the preceding fiscal year, prepared in accordance generally accepted accounting principles. 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) *Other Annual Information.* To the extent not included in the audited final statements of the City, the Annual Report shall also include financial and operating data with respect to the City for preceding fiscal year, as follows:

- (i) Principal amount of the Bonds outstanding.
- (ii) Balance in the Reserve Fund (as such term is used in the Indenture) and a statement of the reserve requirement with respect thereto.
- (iii) A statement that the City has complied with its rate covenants with respect to the Bonds as disclosed under the caption "SECURITY FOR THE BONDS—Rate Covenant" in the Official Statement.
- (iv) An update of the following tables under the caption "THE SEWER SYSTEM" in the Official Statement:
 - (A) "Ten Largest Customers, by Revenue;"
 - (B) "Ten Largest Customers, by Consumption;"
 - (C) "Rate Table;" and
 - (F) "Historical Revenues, Expenditures and Debt Service Coverage."

(c) *Cross References.* 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 EMMA. The City shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) 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.

(b) *Material Reportable Events.* The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) 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.
- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of Any Listed Event. Notwithstanding the

foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Indenture.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this 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 defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent*. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent*. In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the City to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the City under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), 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 Bonds, or the type of business conducted.

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 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. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Certificate owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. 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. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Indenture. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF ALAMEDA

By _____
Name _____
Title _____

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of Alameda

Name of Issue: City of Alameda Financing Authority (Alameda County, California) Sewer Revenue Bonds, 2012 Series A

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by _____.

Date: _____

CITY OF ALAMEDA, Dissemination Agent

By _____
Authorized Officer

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APPENDIX G

BOOK-ENTRY ONLY SYSTEM

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

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

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested

by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Trust Agreement. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal of, premium, if any, and interest on the Bonds by Cede & Co (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The foregoing information concerning DTC and DTC's book-entry system has been provided by DTC, and neither the Authority nor the Trustee takes any responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Authority nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

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

The City, the Authority and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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