

Mt. Shasta Public Financing Authority Agenda

Mt. Shasta Recreation and Parks District Lodge
1315 Nixon Road, Mt. Shasta
Monday, September 23, 2019; Immediately Following the City Council Meeting

	1. Call to Order and Roll Call
	2. Approval of Minutes: May 13, 2019
Page	<p>3. Issuance and Sale of Bonds for the Financing of a Corporate Yard Garage and Solar and Energy Efficiency Improvements</p> <p><u>Background:</u> On February 11, 2019, Council approved an Energy Conservation Contract with Johnson Controls, Inc. to provide certain photovoltaic and energy conservation equipment and facilities to be located at the sites of the wastewater treatment plant, City Hall and the corporation yard. At the Council meeting of September 9, 2019, Council approved an Amendment to the JCI Contract to expand the Original Project to include a garage at the corporation yard in order to anchor the onsite rooftop photovoltaic project. City staff has been working with members of the financing team to develop a financing plan that provides the lowest cost of funds and ensures positive cash flow savings to each of the benefiting enterprises associated with the Project.</p> <p><u>Report By:</u> Bruce Pope, Executive Director</p> <p><u>Recommended Action:</u> Staff respectfully requests the Board of Directors of the Mount Shasta Public Financing Authority to adopt Resolution No. PFA-19-XX Authorizing the Issuance of Series 2019 Revenue Bonds (Corporate Yard Garage and Wastewater Treatment Plant Solar Projects); Approving the Forms of and Authorizing and Directing the Execution and Delivery of Indenture of Trust, Site and Facilities Lease, Lease Agreement, Installment Sale Agreement, Assignment Agreement and Bond Purchase Contract; Approving the Form of the Official Statement and the Distribution thereof; and Providing for other Matters Properly Related thereto.</p>
	4. Adjourn

Mt. Shasta Public Financing Authority DRAFT Minutes

City Park Upper Lodge 1315 Nixon Road, Mt. Shasta
Monday, May 13, 2019; Immediately Following the City Council Meeting

“Our mission is to maintain the character of our “small town” community while striking an appropriate balance between economic development and preservation of our quality of life. We help create a dynamic and vital City by providing quality, cost-effective municipal services and by forming partnerships with residents and organizations in the constant pursuit of excellence.”

STANDING AGENDA ITEMS

1. Call to Order and Roll Call: Meeting was called to order at 7:14 p.m. by Vice Chair Stackfleth.

Members Present: Engstrom, Stackfleth, Redmond, Collings

Members Absent: Wagner

2. Resolution of the governing board of the Mount Shasta Public Financing Authority declaring officers, directing the filing of certain notices, and providing for other matters related thereto

Bruce Pope, City Manager – Review of the process of appointing officers and filing notices.

Cameron Weist, Bond Counsel – Review of Resolution.

BOARD ACTION: Approve Resolution No. PFA-19-01

MOTION TO APPROVE: Redmond

SECOND: Collings

AYES: Engstrom, Redmond, Collings, Stackfleth

NOES: None

ABSENT: Wagner

ABSTAIN: None

3. Adoption of Resolution pertaining to the authorization, sale, and delivery of wastewater revenue bonds to USDA

Bruce Pope, Executive Director – Introduction of Resolution.

Cameron Weist, Bond Counsel – Review of installment sale process to fund downtown sewer project and other projects in the future. Review of USDA requirements for documentation, explained Resolution approving documents as to form only.

BOARD ACTION: Approve Resolution No. PFA-19-02

MOTION TO APPROVE: Redmond

SECOND: Collings

AYES: Engstrom, Redmond, Collings, Stackfleth

NOES: None

ABSENT: Wagner

ABSTAIN: None

4. Adjourn: There being no further business, the meeting was adjourned at 7:31 p.m.

Respectfully Submitted By: Kathryn M. Wilson, PFA Secretary

**Combined City Council and Authority Board Agenda Item
Staff Report**

Meeting Date: September 23, 2019

TO: City Council and Authority Board

FROM: Bruce Pope, City Manager

SUBJECT: Adoption of Resolutions Pertaining to the Authorization, Sale and Delivery of 2019 Revenue Bonds (Corporate Yard Garage and Wastewater Treatment Plant Solar Projects)

Recommendation:

1. Staff respectfully requests the City Council to adopt Resolution No. CCR-19-XX Approving the Issuance of Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project) to be Issued by the Mount Shasta Public Financing Authority; Authorizing the Forms of and Directing the Execution and Delivery of Indenture of Trust, Site and Facilities Lease, Lease Agreement, Installment Sale Agreement, Continuing Disclosure Certificate, and Bond Purchase Contract; Authorizing a Lease Financing and an Installment Sale Financing with the Mount Shasta Public Financing Authority and the Taking of All Necessary Actions in Connection therewith; and Approving the Form of a Preliminary Official Statement; and Providing for Other Matters Properly Related thereto.

And

2. Staff respectfully requests the Board of Directors of the Mount Shasta Public Financing Authority to adopt Resolution No. PFA-19-XX Authorizing the Issuance of Series 2019 Revenue Bonds (Corporate Yard Garage and Wastewater Treatment Plant Solar Projects); Approving the Forms of and Authorizing and Directing the Execution and Delivery of Indenture of Trust, Site and Facilities Lease, Lease Agreement, Installment Sale Agreement, Assignment Agreement and Bond Purchase Contract; Approving the Form of the Official Statement and the Distribution thereof; and Providing for other Matters Properly Related thereto.

Background & Summary:

On February 11, 2019, Council approved an Energy Conservation Contract (the “Original JCI Contract”) with Johnson Controls, Inc. (“JCI”) to provide certain photovoltaic and energy conservation equipment and facilities to be located at the sites of the wastewater treatment plant, City Hall and the corporation yard (the “Original Project”). At the Council meeting of September 9, 2019, Council approved an Amendment to the JCI Contract (the “Contract Amendment,” and together with the Original JCI Contract, the “JCI Contract”) to expand the Original Project to include a garage at the corporation yard in order to anchor the onsite rooftop photovoltaic project (the “Project Amendment,” and together with the Original Project, the “Project”).

City staff has been working with members of the financing team to develop a financing plan that provides the lowest cost of funds and ensures positive cash flow savings to each of the benefiting enterprises associated with the Project. The Financing Team includes: Bond Counsel – Cameron Weist (Weist Law) and Underwriter – Todd Smith and Andy Kuo (Hilltop Securities).

Bond Structure:

The cost of the Project is proposed to be financed by the issuance of Series 2019 Revenue Bonds (the “Bonds”) that be publicly offered and are being scheduled to mature over a twenty-five year payback period. It is anticipated that the Bonds will be sold on a “negotiated” basis to Hilltop Securities Inc., as underwriter (“Underwriter”) pursuant to a Bond Purchase Contract (the “Bond Purchase Contract”). It is anticipated that the pricing (the “Pricing”) and sale of the Bonds will be completed during the week of August 30th, and that the Bonds will be issued the week of October 14th. The final interest rate and aggregate principal amount of the Bonds will be determined during the Pricing and will become final upon execution of the Bond Purchase Contract. Based upon current market conditions, it is anticipated that the Bonds maturing each year will bear interest ranging from 2% to 3%.

A Preliminary Official Statement outlining the scope of the project, terms and conditions of the sale of the Bonds and pertinent information relating to the City, its organizational structure, demographics, and relevant financial information has been prepared and is available for public inspection in connection with the sale of these securities. A copy of the Preliminary Official Statement is attached to this report for informational purposes. A copy is also on file in the City Clerk’s Office.

The proposed financing structure takes into consideration the benefit emanating to the City (and the corresponding general fund) and its wastewater enterprise (and the corresponding wastewater fund, collectively, the “Repayment Funds”) and the corresponding payment of debt service on the Bonds from proportionate allocations of the Repayment Funds. The wastewater portion of the Bond debt service will be repaid from net revenues (as defined in the financing documents described below) of the wastewater enterprise. The general fund portion of the Bond debt service will be repaid from Base Rental Payments made from the City’s general fund through a traditional lease appropriation structure subject to annual City Council approval (as part of the budget process).

In order to minimize financing costs and reduce the all-in interest cost to the City, the proposed Bonds incorporate each of the Repayment Funds which will be relied upon by Bond investors to secure the repayment of the Bonds.

The wastewater enterprise has an existing loan with the California Infrastructure and Economic Development Bank (IBank) in the presently outstanding amount of \$1,250,000 (the “IBank Loan”). The IBank Loan bears interest at 3.25% with an annual fee of .30%, making the total effective rate 3.55%. Due to the low interest rate expected to be achieved on the Bonds (approximately 2.65%), staff is recommending that the IBank Loan be refinanced (the “IBank Refinancing”) as part of the Bond financing. After all costs, the savings associated with the IBank Refinancing are expected to be approximately \$85,000. The IBank Loan matures on August 1, 2037. The IBank Refinancing will also mature on August 1, 2037. Please refer to the attached draft Summary Savings Analysis for estimated details as to the IBank Refinancing calculations associated with the Refunding of the Prior Bonds.

Based on the economic analysis provided by JCI as part of their savings calculations, using a projected 4% energy cost escalation, the City will save over **\$4,395,000** over the 25-year useful life of the Project improvements, and an additional **\$90,000** (approximate) in cash flow savings from the IBank Refinancing. Under current market interest rates, the Bonds are projected to have an all-in interest cost less than 3% with a final payment in year 25. The 25-year estimated cash flow to/from each of the Repayment Funds is projected to be approximately:

- **General Fund Portion (General Fund-related Garage and Solar Project)**
 - 25-year Repayment
 - Allocated Det Service \$1,434,751
 - Total Energy Savings \$1,060,615
 - Residual \$374,136

- **Wastewater Portion (Wastewater-related Solar Project)**
 - 25-year Repayment
 - Allocated Det Service \$3,338,535
 - Total Energy Savings \$3,338,535
 - Residual \$0

- **Wastewater Portion (IBank Refinancing Project)**
 - 18-year Repayment (matches current IBank Loan Term)
 - Existing Total Det Service \$1,736,455
 - Proposed New Total Debt Services \$1,643,927
 - Estimated Savings \$92,528

Attached is a draft preliminary numerical analysis for details as to the estimated savings calculations.

The Leased Property:

As with the Prior Certificates, staff is recommending that the City pledge its City Hall and Police Building as the leased asset (the “Leased Property”) securing the lease payments for the repayment of the Bonds. As required by law under lease financing structures in California, the maximum annual debt service payable by the City on the Bonds must not be in excess of the annual fair rental value of the Leased Property, and by the adoption of the subject resolutions, the City and Authority are making such a finding with respect to the leasing of the Leased Property. The Leased Property will be leased until the final maturity of the Bonds, unless modified under conditions set forth in the legal documents.

Public Hearing:

Approval of the Bonds requires the City Council to conduct a public hearing pursuant to Government Code Section 6586.5 before considering the subject resolutions. In accordance with Government Code Section 6586.5 (a), (c) and (d), the City must hold a public hearing to consider public testimony concerning the possible issuance of Bonds by the Authority to finance certain public capital improvements within the boundaries of the City. The subject resolutions approve the lease of the Leased Property and the sale of the Bonds by the Authority and find that there are significant public benefits in connection with the Bonds.

Summary of Resolutions and Documents:

1. City Resolution No. CCR-19-XX - This resolution authorizes the lease and installment sale financing arrangement between the City and the Authority and approves the issuance of the Bonds by the Authority. This Resolution also authorizes the forms of, and directs execution of, the various legal and financial documents described below.

2. Authority Resolution No. PFA-19-XX - This resolution approves the issuance of the Bonds, and also authorizes the forms of and directs execution of the various legal and financial documents described below.

3. Draft Legal and Financial Documents.

Site Lease and Lease Agreement: The City will lease the Leased Facilities to the Authority under a Site and Facilities Lease, and the Authority will lease the Leased Facilities back to the City under a Lease Agreement, in consideration of the payment by the City to the Authority of semi-annual rental payments (the “Base Rental Payments”), which are pledged to the repayment of the Bonds. Among other things, the Lease Agreement provides for the following:

- That the City must include Base Rental Payments due each Fiscal Year in each corresponding annual budget and must make the necessary annual appropriations for all such annual Base Rental Payments.
- That the City must, at its sole cost and expense, keep and maintain the Lease Property in a clean, safe and good operational condition and repair.
- That the City shall have the option at any time to substitute other real property in place of the Leased property (i.e., the City has the right to substitute the collateral of the lease transaction), provided that the City is able to first satisfy all of the requirements set forth in Section 7 of the Lease Agreement.
- That the City must procure and maintain throughout the term of the financing, the insurance set forth in Section 9 of the Lease Agreement.
- That the obligation of the City to pay Base Rental Payments shall be abated during any period in which by reason of any damage, destruction or condemnation there is substantial interference with the use and occupancy of the Leased Property or any portion thereof by the City.
- That upon termination or expiration of the Lease Agreement, and the first date upon which the Certificates are no longer outstanding, all right, title and interest in and to the Leased Property shall vest in the City.

Draft Installment Sale Agreement: This agreement provides for the purchase of the Project from the Authority in exchange for the City’s promise to make future semi-annual Installment Payments (made from net revenues of the Wastewater Fund) to the Authority. In addition to making the Installment Payments, the City covenants to acquire and construct the Project in accordance with proper plans and specifications, and then to maintain the Project throughout the term of the Installment Sale Agreement, pay taxes, if any, and to maintain various forms of insurance.

This document, among other things, provides the following:

- That the City must include Installment Payments due each Fiscal Year in each corresponding annual budget and to make the necessary annual appropriations for all such annual Installment Payments.
- That rates must be set and maintained such that annual Net Revenues equal or exceed at least 120% of (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to any outstanding Parity Debt.
- That the City must, at its sole cost and expense, keep and maintain the Project in good condition and repair.
- That the City must procure and maintain throughout the term of the financing, the insurance set forth in Sections 5.3 and 5.4 of the Installment Sale Agreement.

Draft Indenture of Trust: This is an agreement which sets forth the covenants and specifics of the Bonds, including the pledge of Installment and Base Rental Payments, flow of funds, prepayment provisions, establishment and management of funds and accounts, the City, Authority and Trustee duties, repayment mechanisms and the Bond owners' rights and remedies. The bulk of the Bond proceeds are deposited into a Project Fund maintained by the Trustee, which are disbursed by the Trustee to pay for costs of the Project in accordance with requisitions from the City.

Draft Preliminary Official Statement: As a necessary prerequisite to the public marketing and selling of the Bonds, a preliminary official statement (the "Preliminary Official Statement") has been prepared by Weist Law, as Disclosure Counsel to the City, with the help of the Underwriter and City staff. This document describes the City, the Authority, the Project, the lease and installment sale financing arrangement, the Wastewater Enterprises, the Bonds, the Installment Sale Agreement, the Lease Agreement, the Continuing Disclosure Certificate, and the risk factors associated with an investment in the Bonds. The Preliminary Official Statement is the central source of information to potential bond buyers, and as such it is essential that the information be accurate and complete. Once the Bond Purchase Contract (described below) is executed, the final pricing detail will be used to fill in the blanks of the Preliminary Official Statement, which will then be used as the basis for the final Official Statement.

Important Information about Securities Disclosure: The Preliminary Official Statement has been reviewed and approved for transmittal to the City Council and Authority Board by staff and the financing team. The Preliminary Official Statement must include all facts that would be considered material to an investor in the Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Bonds. Members of the City Council and Authority Board are encouraged to review the Preliminary Official Statement and/or question staff and consultants to make sure they feel comfortable that it includes all material facts.

Draft Bond Purchase Contract: This is an agreement among the City, Authority and Hilltop Securities, the underwriter of the Bonds (the "Underwriter"), which provides the terms and conditions for the sale of the Bonds by the Authority to the Underwriter, and once signed, locks in the final terms and interest rates.

Draft Continuing Disclosure Certificate: This is a certificate of the City to make certain secondary market disclosure--including the provision of information regarding the fiscal health of the City (including the General Fund and Wastewater Enterprise Fund)--on an annual basis to comply with securities regulations.

Please note that the Financing Documents are being presented to the Council as form documents, as they cannot be fully completed at this time because certain critical components such as public offering details, interest rates and annual debt service payments will depend on the state of the bond market at the time that the transaction is actually priced (i.e., sold to the Underwriter). This method of approval is the normal method of approving a bond issue in California.

Debt Management Policy:

In addition to approval of the Financing Documents, the subject City Resolution also adopts a Debt Management Policy which are intended to identify the processes for debt issuance, identify risk thresholds, and provide a mode of enforcement of debt management policies, and promote best practices regarding Debt Management. Ensuring a solid track record of Debt Management will be viewed favorably by bond investors, rating agencies, bond insurers and the public, and is therefore in the best interests of the City.

Timing:

If Council and Authority Board adopts the respective subject resolutions, City staff and the financing team will finalize all remaining legal and disclosure documents, and then close the transactions on or about October 15th.

Options:

1. Approve the recommendation as presented, adopt the associated resolutions.
2. Do not approve but provide direction to staff.

Financial Impact:

If approved, (i) the City (general fund) will be required to pay the Base Rental Payments in the annual amount of approximately \$57,500 for the life of the Lease Agreement, which is scheduled to terminate in fiscal year 2043-44, and (ii) the wastewater fund will be required to pay the Base Rental Payments in the annual amount of approximately \$133,500 for the life of the Installment Sale Agreement, which is scheduled to terminate in fiscal year 2043-44. The total energy saving emanating from the Project improvements are expected to total approximately \$4,399,150 over the 25-year life of the Bonds, which equates to \$175,966 per year.

Suggested Motions:

Move to approve the subject Resolutions to authorize and direct the issuance of the Bonds.

Attachments:

- Attachment A City Resolution No. CCR-19-~~XX~~
- Attachment B Authority Resolution No. PFA-19-~~XX~~
- Attachment C Draft Lease Agreement
- Attachment D Draft Installment Sale Agreement
- Attachment E Draft Indenture of Trust
- Attachment F Draft Installment Sale Agreement
- Attachment G Draft Preliminary Official Statement
- Attachment H Draft Bond Purchase Contract
- Attachment I Draft Continuing Disclosure Certificate
- Attachment J Debt Management Policy (attached as Exhibit A of the City Resolution)
- Attachment K Projected Cash Flow Savings Analysis

RESOLUTION NO. PFA-19-XX

A RESOLUTION OF THE GOVERNING BOARD OF THE MOUNT SHASTA PUBLIC FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF SERIES 2019 REVENUE BONDS (CITY AND WW TREATMENT PLANT SOLAR PROJECT); APPROVING THE FORMS OF AND AUTHORIZING AND DIRECTING THE EXECUTION AND DELIVERY OF INDENTURE OF TRUST, SITE AND FACILITIES LEASE, LEASE AGREEMENT, INSTALLMENT SALE AGREEMENT, ASSIGNMENT AGREEMENT AND BOND PURCHASE CONTRACT; APPROVING THE FORM OF THE OFFICIAL STATEMENT AND THE DISTRIBUTION THEREOF; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATED THERETO

WHEREAS, the Mount Shasta Public Financing Authority (the “Authority”) is a joint powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement dated as of May 13, 2019, by and between the City of Mount Shasta (the “City”), and the Mount Shasta Industrial Development Authority, and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”), and is authorized pursuant to Article 4 of the Act (the “Bond Law”) to borrow money for the purpose, among other things, of financing public capital improvements of the City; and

WHEREAS, the City has requested the Authority to issue its bonds for the purpose of financing (the “Financing”) the cost of acquiring and construction a corporate yard garage (the “Garage”) as well as the costs of modernizing, equipping and installing certain solar and energy efficiency equipment and improvements (the “Equipment”) within the City (collectively, the “Project”); and

WHEREAS, the Authority and the City have determined that it would be in the best interests of the City and residents of the City to authorize the issuance, sale and delivery of the “Mount Shasta Public Financing Authority, Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project)” (the “Bonds”), for the purpose of financing the Project, all pursuant to the Bond Law; and

WHEREAS, to facilitate the issuance of the Bonds, the City and the Authority desire to enter into a (i) Site and Facilities Lease between the City and the Authority (the “Site Lease”) pursuant to which the City will lease certain real property and improvements thereon, commonly known as City Hall (the “Leased Facilities”), to the Authority, and (ii) a Lease Agreement between the City and the Authority (the “Lease Agreement”), pursuant to which the City will lease the Leased Facilities back from the Authority, and pay certain Base Rental Payments (as defined in the Lease Agreement), which are pledged to the owners of the Bonds by the Authority pursuant the Indenture

WHEREAS, to further facilitate the issuance of the Bonds, the City and the Authority desire to enter into an Installment sale Agreement between the City and the Authority (the “Installment Sale Agreement”), pursuant to which the City will purchase certain Equipment from the Authority, and pay certain Installment Payments (as defined in the Installment Sale Agreement); and

WHEREAS, the Base Rental Payments and Installment Payments are pledged to the owners of the Bonds by the Authority pursuant to an Indenture of Trust, by and between U.S. Bank National Association (the “Trustee”) and the Authority (the “Indenture”); and

WHEREAS, the Authority will assign its rights to receive such Base Rental Payments scheduled to be paid by the City under and pursuant to the Lease Agreement, along with certain other rights under the Indenture, to the Trustee pursuant to an Assignment Agreement, dated as of October 1, 2019, by and between the Authority and Trustee (the “Assignment Agreement”); and

WHEREAS, the City and the Authority desire to provide for the negotiated sale of the Bonds to Hilltop Securities Inc., to act as underwriter (“Underwriter”) pursuant to a Bond Purchase Contract (the “Bond Purchase Contract”); and

WHEREAS, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the “Rule”) requires that, in order to be able to purchase or sell the Bonds, the underwriter thereof must have reasonably determined that the City has undertaken in a written agreement or contract for the benefit of the holders of the Bonds to provide disclosure of certain financial information and certain events on an ongoing basis; and

WHEREAS, a form of Preliminary Official Statement (the “Preliminary Official Statement”) describing, among other things, the Bonds, the City, the Authority, the Project and the Leased Facilities has been prepared, which will be distributed by the Underwriter to persons and institutions interested in purchasing the Bonds, the form of which is on file with the Secretary of the Authority (the “Secretary”); and

WHEREAS, the City has, prior to the consideration of this resolution, held a public hearing on the Financing and the issuance of the Bonds in accordance with Section 6586.5 of the Act, which hearing was held on August 23, 2019 prior to the adoption of this resolution; and

WHEREAS, in accordance with Section 6586.5 of the Act, notice of such hearing was published once at least five days prior to the hearing in a local newspaper of general circulation in the City; and

WHEREAS, pursuant to California Government Code (the “Government Code”) Section 5852.1, certain good faith information relating to the Bonds is set forth herein and made public; and

WHEREAS, there has been presented at this meeting a Debt Management Policy (the “Debt Management Policy”), the form of which has been presented to the City Council and is on file with the City Clerk, and the City Council wishes at this time to approve the Debt Management Policy in the public interests of the City; and

WHEREAS, the Board of Directors of the Authority (the “Board”), with the aid of its staff, has reviewed the Site Lease, the Lease Agreement, the Indenture, the Assignment Agreement, the Installment Sale Agreement, the Preliminary Official Statement, the Continuing Disclosure Certificate and the Bond Purchase Contract (collectively, these documents are hereafter referred to as the “Authority Documents”), the forms of which have been presented to the Board, and are also on file with the Secretary, and the Board wishes at this time to approve the foregoing in the public interests of the City and Authority; and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of such Financing authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Authority is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such financing for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, THE GOVERNING BOARD OF THE MOUNT SHASTA PUBLIC FINANCING AUTHORITY DOES HEREBY FIND, ORDER AND DETERMINE AS FOLLOWS:

Section 1. Approval of Recitals. Each of the above recitals is true and correct.

Section 2. Findings and Determinations. Following a duly noticed and conducted public hearing, the City Council has found and determined that there are significant public benefits to the citizens of the City through the use of the Bond Law to assist the City with respect to the subject matter hereof through the approval of the issuance of the Bonds and otherwise hereunder within the meaning of Section 6586(a)-(d), inclusive, of the Bond Law.

Section 3. Issuance of Bonds; Approval of Indenture. The Board hereby authorizes the issuance of the Bonds under and pursuant to the Indenture. The Board hereby approves the Indenture in substantially the form thereof on file with the Secretary together with any additions thereto or changes therein deemed necessary or advisable by any one of the Chair, the Executive Director or the Treasurer, or any designated deputy thereof (each of them a “Authorized Officer”), including, without limitation, the insertion of the final principal amount and annual maturity amounts of the Bonds, the final interest rates to be borne by the Bonds, as set forth in the executed Bond Purchase Contract and in compliance with the requirements of the provider of any municipal bond insurance policy and any reserve account credit instrument. Execution of the Indenture shall be deemed conclusive evidence of the Authority’s approval of such additions or changes. The Secretary of the Authority is hereby authorized and directed to attest to the Indenture for and in the name and on behalf of the Authority. The Board hereby authorizes the delivery and performance of the Indenture.

Section 4. Approval of Site Lease; Lease Agreement. The Board hereby approves the lease of the Leased Facilities to the City under the Site Lease, in substantially the form on file with the Secretary, together with any changes deemed necessary or advisable by an Authorized Officer, and the lease-back of the Leased Facilities by the Authority to the City pursuant to and in accordance with the terms and provisions of the Lease Agreement, in substantially the form on file with the Secretary, together with any changes therein or additions thereto deemed advisable by an Authorized Officer. The Board hereby authorizes and directs an Authorized Officer to execute, and the Secretary to attest to, the respective forms of the Site Lease and the Lease Agreement for and in the name of the Authority. The Board hereby authorizes the delivery and performance of the Site Lease and the Lease Agreement.

Section 5. Approval of Installment Sale Agreement. The Board hereby authorizes and approves the sale of certain Equipment to the City pursuant to the Installment Sale Agreement. The Board hereby approves the Installment Sale Agreement in substantially the form on file with the Secretary, together with any additions thereto or changes therein as shall be approved by an Authorized Officer of the Authority. Any Authorized Officer of the Authority is hereby authorized and directed to execute, and the Secretary is hereby authorized and directed to attest and affix the seal of the Authority to, the final form of the Installment Sale Agreement for and in the name and on behalf of the Authority and the execution thereof shall be conclusive evidence of the Board’s approval of any such additions and changes. The Board hereby authorizes the delivery and performance of the Installment Sale Agreement.

Section 6. Approval of Assignment Agreement. The Board hereby approves the assignment to the Trustee of certain rights of the Authority under the Lease Agreement, pursuant to the Assignment Agreement in substantially the form on file with the Secretary, together with any changes therein or additions thereto deemed advisable by an Authorized Officer. The Board hereby authorizes and directs an Authorized Officer

to execute, and the Secretary to attest to, said form of the Assignment Agreement for and in the name of the Authority. The Board hereby authorizes the delivery and performance of the Assignment Agreement.

Section 7. Sale of Bonds. The Board hereby approves the sale of the Bonds to the Underwriter pursuant to and in accordance with the Bond Purchase Contract in substantially the form on file with the Secretary together with any additions thereto or changes therein approved, by an Authorized Officer, whose execution thereof shall be conclusive evidence of such approval. The Board hereby delegates, to an Authorized Officer, authorization to accept, for and in the name and on behalf of the Authority, an offer from the Underwriter to purchase the Bonds from the Authority and to execute the Bond Purchase Contract.

Section 8. Approval of the Preliminary Official Statement and the Official Statement. Staff has caused the Preliminary Official Statement to be distributed to the members of the Board and to be placed on file with the Secretary. The Board hereby approves the Preliminary Official Statement describing the Bonds, in substantially the form on file with the Secretary, together with any changes deemed necessary or advisable by an Authorized Officer to cause the preliminary Official Statement to describe accurately matters pertaining to the Bonds.

The Board hereby authorizes and directs any Authorized Officer on behalf of the Authority to deem the Preliminary Official Statement “final” pursuant to the Rule prior to its distribution to prospective purchasers of the Bonds. The Board hereby approves and authorizes the distribution of the Preliminary Official Statement to prospective purchasers of the Bonds.

The Authorized Officers are authorized and directed to cause the preliminary Official Statement to be brought into the form of a final Official Statement and to execute said final Official Statement, dated as of the date of the sale of the Bonds, and to certify that the facts contained in the final Official Statement, and any supplement or amendment thereto (which shall be deemed an original part thereof for the purpose of such statement) were, at the time of sale of the Bonds, true and correct in all material respects and that the final Official Statement did not, on the date of sale of the Bonds, and does not, as of the date of delivery of the Bonds, contain any untrue statement of a material fact with respect to the Authority or omit to state material facts with respect to the Authority required to be stated where necessary to make any statement made therein not misleading in the light of the circumstances under which it was made. The Authorized Officers shall take such further actions prior to the signing of the final Official Statement as are deemed necessary or appropriate to verify the accuracy thereof. The execution of the final Official Statement, which shall be in substantially the form of the Preliminary Official Statement and which shall include such changes and additions thereto deemed advisable by the Authorized Officer and such information permitted to be excluded from the Preliminary Official Statement pursuant to the Rule, shall be conclusive evidence of the approval of the final Official Statement by the Authority.

The final Official Statement, when prepared, is approved for distribution in connection with the offering and sale of the Bonds.

Section 9. Good Faith Estimates. Set forth below are good faith estimates of the Underwriter, as required under Section 5852.1 of the Government Code. The following estimates have no bearing on, and should not be misconstrued as, any not-to-exceed financial parameters authorized by this resolution:

(a) The true interest cost of the Bonds is estimated at 2.69%, calculated as provided in Section 5852.1(a)(1)(A) of the Government Code.

(b) The finance charge of the Bonds, including all fees and charges paid to third parties, is estimated at \$225,802.

(c) The estimated net proceeds to be received for the sale of the Bonds (net of finance charges, reserves and capitalized interest, if any) is \$4,571,730.

(d) The total payment amount calculated as provided in Section 5852.1(a)(1)(D) of the Government Code is estimated at \$6,417,214.

The foregoing estimates constitute good faith estimates only. The principal amount of the Bonds, the true interest cost of the Bonds, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the Bonds being different than the date assumed for purposes of such estimates, (b) the actual principal amount of Bonds sold being different from the estimated amount used for purposes of such estimates, (c) the actual amortization of the Bonds being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the Bonds being different than those estimated for purposes of such estimates, (e) other market conditions, (f) federal tax law advice from Bond Counsel, or (g) alterations in the Authority's financing plan, or a combination of such factors. The actual date of sale of the Bonds and the actual principal amount of Bonds sold will be determined by the Authority based on the timing of the need for proceeds of the Bonds and other factors. The actual interest rates borne by the Bonds will depend on market interest rates at the time of the sale thereof. The actual amortization of the Bonds will also depend, in part, on market interest rates at the time of the sale thereof. Market interest rates are affected by economic and other factors beyond the control of the Authority.

Section 10. Municipal Bond Insurance and Surety Bond. The Authorized Officers, each acting alone, are hereby authorized and directed to take all actions necessary to obtain a municipal bond insurance policy for the Bonds and/or a reserve account surety bond for the Bonds from a municipal bond insurance company if it is determined, upon consultation with the Underwriter and Bond Counsel, that such municipal bond insurance policy and/or surety bond will create cost savings.

Section 11. Qualified Tax-Exempt Obligation. The Board hereby designates the Installment Lease Agreement, Sale Agreement and the Bonds for purposes of Paragraph (3) of Section 265(b) of the Code as a "Qualified Tax-Exempt Obligation" and covenants that the Lease Agreement, Installment Sale Agreement and the Bonds do not constitute a private activity bond as defined in Section 141 of the Code and that the aggregate face amount of all tax-exempt obligations issued by the Authority (including all subordinate entities of the City and all entities which may issue obligations on behalf of the City) during the calendar year 2019 is not reasonably expected to exceed \$10,000,000, excluding, however, private activity bonds, as defined in Section 141 of the Code (other than qualified 501(c)(3) bonds as defined in Section 145 of the Code) and current refunding obligations having a principal amount not in excess of the refunded obligation.

Section 12. Official Action. All actions heretofore taken by the officers and agents of the Authority with respect to the Financing and issuance of the Bonds are hereby approved, confirmed and ratified. The Chair, the Executive Director, the Treasurer, the General Counsel of the Authority, the Secretary and any and all other officers of the Authority are hereby authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, including requisitions for the payment of costs of issuance of the

Bonds, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the sale, issuance and delivery of the Bonds to the Underwriter and the lease and sale of the Equipment to the City pursuant to the documents approved herein. Whenever in this Resolution any officer of the Authority is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated and confirmed in a closing certificate by such officer to act on his or her behalf in the case such officer shall be absent or unavailable.

Section 13. Secretary Certification. The Secretary of the Authority shall certify to the adoption of this resolution. Notwithstanding the foregoing, such certification and any of the other duties and responsibilities assigned to the Secretary pursuant to this resolution may be performed by an Assistant Secretary with the same force and effect as if performed by the Secretary hereunder.

Section 14. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

THE FOREGOING RESOLUTION WAS PASSED AND ADOPTED by the members of the Mount Shasta Public Financing Authority at its regular meeting held on September 23, 2019, by the following roll call vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Barbara Wagner, Chair

ATTEST:

Katherine M. Wilson, Deputy Secretary

INDENTURE OF TRUST

Dated as of October 1, 2019

by and among the

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

And

CITY OF MOUNT SHASTA

and

U.S. BANK NATIONAL ASSOCIATION, as Trustee

Relating to the

\$ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED

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INDENTURE OF TRUST

THIS INDENTURE OF TRUST, dated as of October 1, 2019 (the “Indenture”), is by and among the MOUNT SHASTA PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California (the “Authority”), the CITY OF MOUNT SHASTA, a municipal corporation and general law city, duly organized and existing under and by virtue of the Constitution and the laws of the State of California (the “City”), and U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America with a corporate trust office in San Francisco, California, being qualified to accept and administer the trusts hereby created (the “Trustee”).

WITNESSETH:

WHEREAS, the Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated as of May 13, 2019, by and between the City and the Mount Shasta Industrial Development Authority, and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Act”), and is authorized pursuant to Article 4 (commencing with Section 6584) of the Act (the “Bond Law”) to borrow money for the purpose, among other things, of financing and refinancing public capital improvements of the City and the Mount Shasta Industrial Development Authority; and

WHEREAS, the City desires to acquire, construct, improvement, equip, renovate, remodel or reconstruct, as applicable, a new corporate yard garage and solar facilities and related improvements (the “Project”), as more particularly herein; and

WHEREAS, the City is a member of the Authority and the Project is located entirely within the boundaries of the City; and

WHEREAS, the City and Authority after due investigation and deliberation have adopted respective resolutions authorizing the financing of the Project during the term of the Bonds (described herein); and

WHEREAS, the Authority proposes to issue its Mount Shasta Public Financing Authority, Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project) (the “Bonds”), in the aggregate principal amount of \$ _____, to finance, among other things, the cost of acquiring and installing the Project upon the terms and conditions set forth herein; and

WHEREAS, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof, premium (if any) and interest thereon, the Authority has authorized the execution and delivery of this Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal special obligations of the Authority, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture have been in all respects duly authorized.

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of and the interest and premium (if any) on all Bonds, and to secure any and all amounts due the Insurer, at any time issued and Outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt whereof is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

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

“Accountant” means any accountant or firm of independent certified public accountants selected by the City in its sole discretion.

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

“Act” means the Joint Exercise of Powers Act, being 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 Section 4.10 of the Installment Sale Agreement.

“Agreement” means that certain Joint Exercise of Powers Agreement, dated as of May 13, 2019, by and between the City and the Mount Shasta Industrial Development Authority creating the Authority, together with all amendments thereof and supplements thereto.

“Authority” means the Mount Shasta Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State, including the Act.

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

“Beneficial Owner” means with respect to any book-entry bond, as provided in Section 2.03 hereof, the person who is the beneficial owner of such Bond, according to the records of the Depository or its agent, and with respect to any Bond not in book-entry form, the Owner thereof.

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

“Bond Counsel” means The Weist Law Firm, or another firm of nationally-recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

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

“Bonds” means the Mount Shasta Public Financing Authority, Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project) Bank Qualified, issued pursuant to this Indenture on October __, 2019, in the aggregate principal amount of \$_____.

“Bond Year” means each twelve-month period extending from October 2 in one calendar year to October 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall commence on the Closing Date, and end on October 1, 2020.

“Business Day” means any day other than (1) a Saturday, a Sunday, or a day on which banking institutions in the State are authorized or obligated by law or executive order to be closed, (2) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed, or (3) a day on which commercial banks are authorized or obligated by law or executive order to be closed in the city in which the Office of the Trustee or the principal office of the Insurer is located.

“Cash Flow Certificate” means a written certificate executed by a Cash Flow Consultant.

“Cash Flow Consultant” means an independent investment bank, financial advisor or qualified financial consultant, selected by the City or Authority to serve as such.

“CDIAC” means the California Debt and Investment Advisory Commission of the State, or any successor thereto.

“Certificate,” “Request” and “Requisition” of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority by its Authorized Representative or in the name of the City on its own behalf or as agent of the Authority by the City’s 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. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

“City” means the City of Mount Shasta, a municipal corporation and general law city, duly organized

and validly existing under the Constitution and laws of the State.

“City Project” means acquisition and installation of (a) the Equipment and other personal property identified in the Lease Agreement, and (b) any property acquired in substitution, renewal, repair or replacement for or as additions, improvements, accessions and accumulations to any of such Equipment, all as generally described in Exhibit A of the Lease Agreement, and by this reference incorporated herein, as such description may be amended by the City from time to time pursuant to and in accordance with the terms thereof.

“Closing Date” means the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the payment of the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder.

“Continuing Disclosure Certificate” shall mean that certain Continuing Disclosure Certificate, dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City relating to the execution and delivery of the Installment Sale Agreement and Indenture or the execution, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to filing and recording costs, settlement costs, underwriter’s discount and original issue discount (if any), printing costs, reproduction and binding costs, initial fees and charges of the Trustee and its counsel, initial charges of the City and Authority, out-of-pocket expenses incurred by the City, financing discounts, legal fees and charges, financial and other professional consultant fees, insurance premiums, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Bonds and charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to Section 3.03.

“Debt Service” means, for any period of calculation, the sum of: (a) the of and interest on all Outstanding Bonds, except to the extent that interest thereof is payable from the proceeds of the Bonds, plus (b) the principal of and interest on all outstanding Parity Obligations coming due and payable in such period, except to the extent that interest thereof is payable from the proceeds of the Parity Obligations; but less the earnings to be derived from the investment of amounts on deposit in the Reserve Fund or in any debt service reserve funds established for Parity Obligations.

“Defeasance Obligations” means any of the following: (1) cash; (2) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (3) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository pursuant to Section 2.03.

“Depository System Participant” means any participant in the Depository’s book-entry system.

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

“EMMA” means Electronic Municipal Market Access (EMMA) system of the Municipal Securities Rulemaking Board, with the portal website currently located at <http://emma.msrb.org>.

“Equipment” shall have the meaning ascribed to such term in the Lease Agreement.

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

“Excess Investment Earnings” means an amount required to be rebated to the United States of America under Section 148(f) of the Tax Code due to investment of gross proceeds of the Bonds at a yield in excess of the yield represented by the Bonds.

“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) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Federal Securities” means, with respect to the Bonds: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; or (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

“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 or the City, as applicable, as its official fiscal year period.

“Fitch” means Fitch Ratings, Ltd., its successors and assigns.

“General Fund” means the General Fund of the City.

“General Fund Related Project Account” means the account by that name within the Project Fund

established and held by the Trustee pursuant to Section 3.04.

“Improvements” means the land, improvements and other property described more fully in Exhibit B attached to the Installment Sale Agreement, and by this reference incorporated herein, as such description may be amended by the City from time to time pursuant to and in accordance with Section 3.2 of the Installment Sale Agreement. The precise identification of the Improvements or any component thereof shall be determined by reference to the plans and specifications therefor.

“Indenture” means this Indenture of Trust, 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 Certified Public 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.

“Information Services” means EMMA, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other organizations providing information with respect to the Bonds as either the City or Authority may designate in a respective Certificate delivered to the Trustee.

“Installment Payment Date” means not later than five (5) Business Days prior to each February 1 and August 1, commencing not later than five (5) Business Days prior to February 1, 2020.

“Installment Payment Default Event” means any of the events specified in Section 8.1 of the Installment Sale Agreement.

“Installment Payments” means the aggregate amount of all the payments required to be paid by the City pursuant to the Installment Sale Agreement, as quantified in Exhibit A to the Installment Sale Agreement.

“Installment Sale Agreement” means the Installment Sale Agreement, dated as of October 1, 2019, by and between the City and the Authority relating to the Projects, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

[“Insurance” means any financial guaranty insurance policy or municipal bond insurance policy issued by the Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy.]

[“Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due. The Insurance Policy shall constitute a Credit Enhancement for all purposes of this Indenture.]

[“Insurer” means _____, a New York stock insurance company, or any successor thereto or assignee thereof. The Insurer shall constitute a Credit Provider for all purposes of this Indenture.]

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

“Interest Payment Date” means, with respect to any Bond, February 1, 2020, and each August 1 and February 1 thereafter to and including the date of maturity or the date of prepayment of such Bond.

“Lease Agreement” means the Lease Agreement, dated as of October 1, 2019, by and between the City and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

“Local Obligations” means, collectively, (i) the Installment Sale Agreement and (ii) the Lease Agreement.

“Maximum Annual Debt Service” means, as of the date of any calculations, the largest annual Debt Service coming due during the current or any future Bond Year.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns.

“Net Proceeds” means insurance proceeds or an eminent domain award (including any proceeds of sale to a governmental entity under threat of the exercise of eminent domain powers), paid with respect to the Local Obligations, respectively, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

“Nominee” means (a) initially, Cede & Co., as nominee of DTC, and (b) any other nominee of the Depository designated pursuant to Section 2.03(a).

“Office” means with respect to the Trustee, the corporate trust office of the Trustee at its address set forth in Section 12.02; provided, however, that for purposes of the payment, prepayment, cancellation, surrender, transfer or exchange of certificates, such term means the principal corporate trust office of the Trustee in Los Angeles, California, or such other or additional offices as may be specified by the Trustee in writing to the City.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds retained by either the City or the Authority. If and to the extent required by the provisions of Section 1.02, each Opinion of Counsel shall include the statements provided for in Section 1.02.

“Original Purchaser” means Hilltop Securities Inc., as the first purchaser of the Bonds upon the negotiated sale thereof.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the

provisions of Section 11.09) all theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except:

- (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds with respect to which all liability of the Authority shall have been paid or otherwise discharged in accordance with Section 10.02, including Bonds (or portions thereof) described in Section 11.09; and
- (c) Bonds transferred or exchanged in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

“Owner” “Holder” “Bondowner” or “Bondholder,” 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.

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

“Permitted Investments” means any of the following, but only to the extent that the same are acquired at Fair Market Value, which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (a) Federal Securities.
- (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): (i) certificates of beneficial ownership of the Farmers Home Administration; (ii) Federal Housing Administration debentures; (iii) participation certificates of the General Services Administration; (iv) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (v) guaranteed Title XI financings of the U.S. Maritime Administration; and (vi) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development.
- (c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgage-backed securities and senior debt obligations of Fannie Mae; (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations of the Resolution Funding Corporation; and (vi) consolidated system-wide bonds and notes of the Farm Credit System.
- (d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and which are rated in the highest short-term rating category by any of the Rating Agencies (such funds may include funds for which the Trustee, its

affiliates, parent or subsidiaries provide investment advisory or other management services), but excluding funds with a floating net asset value.

(e) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral described in (a) or (b) above, which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated one of the three highest rating categories by at least one of the Rating Agencies, which collateral must be held by a third party and provided that the Trustee must have a perfected first security interest in such collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation or collateralized by Permitted Investments described in clause (a) for amounts in excess of FDIC insurance.

(g) Investment agreements with a financial institution the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor or the institution is rated one of the three highest rating categories from any of the Rating Agencies, by the terms of which the Trustee is permitted to withdraw the invested funds if the rating falls below one of the three highest rating categories from all Rating Agencies.

(h) Commercial paper rated one of the three highest rating categories by any of the Rating Agencies.

(i) Bonds or notes issued by any state or municipality which are rated one of the three highest rating categories by any of the Rating Agencies.

(j) Federal funds, deposit accounts or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of one of the three highest rating categories by any of the Rating Agencies.

(k) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

(l) Repurchase agreements with a financial institution the long-term debt or claims paying ability of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor or the institution is rated one of the three highest rating categories by any of the Rating Agencies; provided that: (i) the over-collateralization is at 102%, computed weekly, consisting of such securities as described in this section, items (a), (b) and (c); (ii) a third party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; (iii) the Trustee shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the agreement.

(m) Forward delivery or forward purchase agreements with underlying securities of the types

described in (a), (b), (c) and (h) above.

“Prepayment” means any payment of principal received with respect to a Local Obligation earlier than the time scheduled for payment.

“Prepayment Account” shall mean the account by that name within the Revenue Fund established and maintained pursuant to Section 5.03.

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

“Projects” means, collectively, the Water Project, the Wastewater Project and the City Project.

“Project Costs,” means the costs of acquisition, construction, implementing and equipping all or component parts of the Projects, or the application of the proceeds of Bonds to the costs and expenses which are incidental or related to the Acquisition and Construction of additions to such Projects, by the City and/or the Authority, including amounts payable to the City by the Authority as reimbursement for any of the foregoing.

“Project Fund” means the fund by that name established pursuant to Section 3.04.

“Qualified Reserve Fund Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) which is rated in at least one of the three highest rating categories by two of the following four rating agencies: Moody’s, S&P, Fitch, or A.M. Best & Company; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement to be satisfied with such Qualified Reserve Fund Credit Instrument; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to this Indenture, or to draw the amount available under such letter of credit or surety bond in the event that such letter of credit or surety bond is not renewed.

“Rating Agencies” means, as of any date, each of the following entities: Fitch, S&P and Moody’s, and their respective corporate successors and any other nationally recognized statistical rating organization (as that term is used in the rules and regulations of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended).

“Rebatable Arbitrage” means the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the last Bond Outstanding) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

“Rebate Analyst” means the entity engaged by the City or the Authority to compute the Rebatable Arbitrage annually pursuant to this Indenture.

“Rebate Fund” means the Rebate Fund created and established pursuant to Section 5.03.

“Rebate Regulations” means those final, temporary, and proposed Treasury Regulations promulgated under Section 148(f) of the Code.

“Record Date” means the close of business on the fifteenth (15th) day of the month immediately preceding each Interest Payment Date, whether or not such 15th day is a Business Day.

“Redemption Fund” means the fund by that name established pursuant to Section 5.07.

“Registration Books” means the records maintained by the Trustee pursuant to Section 2.06 for the registration and transfer of ownership of the Bonds.

“Representation Letter” means the representation letter from the Authority to DTC.

“Required Rebate Deposit” shall mean an amount determinable as of the end of each fifth Bond Year and as of the date of retirement of the last Bond, which when added to amounts then on deposit in the Rebate Fund, if any, equals the aggregate amount of Rebateable Arbitrage for the Bonds less the amount of Rebateable Arbitrage theretofore paid to the United States with respect to the Bonds, if any.

“Reserve Fund” means the account by that name in the Revenue Fund established and maintained pursuant to Section 5.06.

[“Reserve Policy” means the municipal bond debt service reserve insurance policy issued by the Insurer and deposited into the Reserve Fund for the benefit of the Bonds. The Reserve Policy shall constitute a Qualified Reserve Fund Credit Instrument for all purposes of this Indenture.]

“Reserve Requirement” means \$ _____.

“Revenue Fund” means the fund by that name established pursuant to Section 5.01.

“Revenues” means (a) all Installment Payments, but excluding any corresponding Additional Payments, (b) all Base Rental Payments, but excluding any corresponding Additional Payments, (c) amounts deposited in the Reserve Fund and Revenue Fund, (d) Prepayments, and (e) all and interest, profits or other income derived from the investment of amounts in any fund or account (except the Rebate Fund) established pursuant to this Indenture.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, New York, New York, or its successors.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099; or such other addresses and/or such other securities depositories as the Authority may designate.

“Series” whenever used herein with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction regardless of variations in maturity,

interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as herein provided.

“Sinking Account” means the account by that name in the Revenue Fund established pursuant to Section 5.05.

“State” means the State of California.

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

“Surplus Fund” shall mean the Fund by that name in the Revenue Fund established pursuant to Section 5.02.

“Tax Certificate” means the Tax Certificate delivered by the Authority and the City on the Closing Date, as the same may be amended or supplemented in accordance with its terms.

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to Sections 103, 141, 148 and all related sections of the Code.

“Term Bonds” means the Bonds maturing October 1, 20__, which are subject to mandatory Sinking Account redemption prior to their stated maturity dates.

“Trustee” means U.S. Bank National Association, 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 Section 8.01.

“Wastewater Enterprise” means, collectively, the entire wastewater collection, treatment and disposal system owned or operated by the City, including but not limited to all facilities, properties and improvements at any time owned or operated by the City for the collection, treatment and disposal of wastewater within the service area of the City, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

“Wastewater Fund” means the fund or funds established and held by the City with respect to the Wastewater Enterprise for the deposit of Gross Revenues of the Wastewater Enterprise.

“Wastewater Fund Related Project Account” means the account by that name within the Project Fund established and held by the Trustee pursuant to Section 3.04.

“Wastewater Project” means any additions, betterments, extensions or improvements to the Wastewater Enterprise designated by the City Council as a designated Wastewater Project, the design, acquisition or construction of which (together with the incidental costs and expenses related thereto) is to be financed by the proceeds of the Bonds, all as generally described in Exhibit A of the Installment Sale

Agreement, and by this reference incorporated herein, as such description may be amended by the City from time to time pursuant to and in accordance with the terms thereof.

“Water Enterprise” means, collectively, the entire water supply, storage and distribution system of the City, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the City for the supply, treatment and storage of water to residents of the City and adjacent areas, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

“Water Fund” means the fund or funds established and held by the City with respect to the Water Enterprise for the deposit of Gross Revenues of the Water Enterprise.

“Water Fund Related Project Account” means the account by that name within the Project Fund established and held by the Trustee pursuant to Section 3.04.

“Water Project” means any additions, betterments, extensions or improvements to the Water Enterprise designated by the City Council as a designated Water Project, the design, acquisition or construction of which (together with the incidental costs and expenses related thereto) is to be financed by the proceeds of the Bonds, all as generally described in Exhibit A of the Installment Sale Agreement, and by this reference incorporated herein, as such description may be amended by the City from time to time pursuant to and in accordance with the terms thereof.

Section 1.02. Content of Certificates and Opinions. Other than those certificates and opinions delivered on a Closing Date and those opinions delivered or approved by Bond Counsel, every certificate or opinion provided for in this Indenture with respect to compliance with any provision hereof shall include (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person, he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the Authority or the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Accountant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Accountant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority or the City, as the case may be) upon a certificate or opinion of or representation by an officer of the Authority or the City, unless such counsel or Accountant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person’s certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the Authority or the City, or the same counsel or Accountant, as the case may be, need not certify to all of the

matters required to be certified under any provision of this Indenture, but different officers, counsel or Accountants may certify to different matters, respectively.

Section 1.03. Interpretation.

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

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

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

ARTICLE II

THE BONDS

Section 2.01. Authorization of Bonds. The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Bonds and has found, as a result of such review, and hereby finds and determines that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, that the Authority is now duly authorized, pursuant to each and every requirement of the Act, to issue the Bonds in the form and manner provided herein for the purpose of providing funds to (1) provide moneys to finance the Water Project, (2) provide moneys to finance the Wastewater Project, (3) finance the cost of Qualified Reserve Fund Credit Instrument for the Bonds, and (4) pay certain costs of issuance of the Bonds, and that the Bonds shall be entitled to the benefit, protection and security of the provisions hereof.

Section 2.02. Terms of the Bonds. The Bonds authorized to be issued by the Authority under and subject to the Bond Law and the terms of this Indenture shall be dated the Bond Date and be designated the “Mount Shasta Public Financing Authority, Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project) Bank Qualified,” and shall be issued in the initial aggregate principal amount of _____ Million _____ Hundred ____ Thousand Dollars (\$_____).

The Bonds shall be issued in fully registered form without coupons and shall be dated as of the Closing Date. Both the principal of and interest on the Bonds shall be payable in lawful money of the United States of America. The Bonds shall be issued in denominations of \$5,000 or any integral multiple thereof. This Indenture constitutes a continuing agreement with the Trustee and the Owners from time to time of the Bonds to secure the full payment of the principal of and interest on all the Bonds, subject to the covenants, provisions and conditions herein contained.

The Bonds shall mature on August 1 in each of the years and in the amounts set forth below and shall bear interest on each Interest Payment Date at the rates set forth below:

Maturity Date <u>(August 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>
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Interest on Bonds shall be payable semi-annually (calculated based on a 360-day year of twelve thirty day months) on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed by first class mail to the Owner at the address of such Owner as it appears on the Registration Books; provided however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee before the applicable Record Date. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before January 15, 2020, in which event it shall bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Principal of any Bond shall be paid by check of the Trustee upon presentation and surrender thereof at maturity or upon the prior redemption thereof, at the Office of the Trustee.

“CUSIP” identification numbers shall be imprinted on the Bonds, but such numbers shall not constitute a part of the contract evidenced by the Bonds and any error or omission with respect thereto shall not constitute cause for refusal of any purchaser to accept delivery of and pay for the Bonds. In addition, failure on the part of the Authority or the Trustee to use such CUSIP numbers in any notice to Owners shall not constitute an Event of Default or any violation of the Authority’s contract with such Owners or the Trustee’s obligations or duties hereunder and shall not impair the effectiveness of any such notice.

Section 2.03. Book-Entry System.

(a) Except as otherwise provided in subsections (b) and (c) of this Section 2.03, all of the Bonds initially issued shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), or such other nominee as DTC shall request pursuant to the Representation Letter. Payment of the interest on any Bond registered in the name of Cede & Co. shall be made on each interest

payment date for such Bonds to the account, in the manner and at the address indicated in or pursuant to the Representation Letter.

(b) The Bonds initially shall be issued in the form of a single authenticated fully registered bond for each stated maturity of such Bonds, representing the aggregate principal amount of the Bonds of such maturity. Upon initial issuance, the ownership of all such Bonds shall be registered in the registration records maintained by the Trustee pursuant to Section 2.06 hereof in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. The Trustee, the Authority and any paying agent may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name or the name of its nominee for the purposes of payment of the principal or redemption price of and interest on such Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders hereunder, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders of the Bonds and for all other purposes whatsoever; and neither the Trustee or the Authority or any paying agent shall be affected by any notice to the contrary. Neither the Trustee nor the Authority or any paying agent shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this Section 2.03, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Participant, or any other person which is not shown on the registration records as being a Bondholder, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal or redemption price of or interest on the Bonds, (iii) any notice which is permitted or required to be given to Holders of Bonds hereunder, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds, or (v) any consent given or other action taken by DTC as Holder of Bonds. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge the Authority's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Bonds will be transferable to such new nominee in accordance with subsection (f) of this Section 2.03.

(c) In the event that the Authority determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain bond certificates, the Trustee shall, upon the written instruction of the Authority, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In such event, the Bonds will be transferable in accordance with subsection (f) of this Section 2.03. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice of such discontinuance to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Bonds will be transferable in accordance with subsection (f) of this Section 2.03. Whenever DTC requests the Authority and the Trustee to do so, the Trustee and the Authority will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Bonds then Outstanding. In such event, the Bonds will be transferable to such securities depository in accordance with subsection (f) of this Section 2.03, and thereafter, all references in this Trust Indenture to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(d) Notwithstanding any other provision of this Indenture to the contrary, so long as all Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of

and premium, if any, and interest on each such Bond and all notices with respect to each such Bond shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) The Trustee is hereby authorized and requested to execute and deliver the Representation Letter and, in connection with any successor nominee for DTC or any successor depository, enter into comparable arrangements, and shall have the same rights and immunities with respect to its actions thereunder as it has with respect to its actions under this Indenture.

(f) In the event that any transfer or exchange of Bonds is authorized under subsection (b) or (c) of this Section 2.03, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered owner thereof of the Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of Sections 2.05 and 2.06 hereof. In the event Bond certificates are issued to Holders other than Cede & Co., its successor as nominee for DTC as holder of all the Bonds, another securities depository as holder of all the Bonds, or the nominee of such successor securities depository, the provisions of Sections 2.04 and 2.05 hereof shall also apply to, among other things, the registration, exchange and transfer of the Bonds and the method of payment of principal of, premium, if any, and interest on the Bonds.

Section 2.04. 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. The Authority and the Trustee may deem and treat the registered owner of any Bonds as the absolute owner of such Bonds for the purpose of receiving payment thereof and for all other purposes, whether such Bonds shall be overdue or not, and neither the Authority nor the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the interest on and principal of and redemption premium, if any, on such Bonds shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on such Bonds to the extent of the sum or sums so paid.

The Trustee shall not be required to issue, register the transfer of or exchange any Bonds during the fifteen (15) days preceding each interest payment date or the date of selection by the Trustee of Bonds for redemption, or to register the transfer of or exchange any Bonds which have been selected for redemption in whole or in part.

Whenever any Bond 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 shall require the Bondowner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Section 2.05. Exchange of Bonds. Bonds may be exchanged at the 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 by the Trustee if such Bond has been selected for redemption pursuant to Article IV. The Trustee shall require the Bondowner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Section 2.06. Registration Books. The Trustee will keep or cause to be kept, sufficient records for the registration and transfer of ownership of the Bonds, which shall at all reasonable times be open to inspection

during regular business hours by the Authority and the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as hereinbefore provided.

Section 2.07. Form and Execution of Bonds. The Bonds shall be in substantially the form set forth in Exhibit A with such modifications, additions and deletions as the Authority shall deem necessary. The Bonds shall be executed in the name and on behalf of the Authority with the manual or facsimile signature of its Chairman, Vice-Chairman, Treasurer or Executive Director, attested by the manual or facsimile signature of its Secretary. The Bonds shall then be delivered to the Trustee for authentication by it.

In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers of the Authority before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee, or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though those who signed and attested the same had continued to be such officers of the Authority, and also any Bonds may be signed and attested on behalf of the Authority by such persons as at the actual date of execution of such Bonds shall be the proper officers of the Authority although at the nominal date of such Bonds any such person shall not have been such officer of the Authority.

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

Section 2.08. Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Authority, shall be in fully registered form without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, at the Office of the Trustee and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

Section 2.09. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and destroyed pursuant to its retention policy then in effect. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City, the Authority and the Trustee and, if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the Authority, at the expense of the Owner of such lost, destroyed or stolen Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead

of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon the presentment of indemnity satisfactory to it). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each new Bond issued under this Section 2.09 and of the expenses which may be incurred by the City, the Authority and the Trustee in the premises. Any Bond issued under the provisions of this Section 2.09 in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

Section 3.01. Issuance of the Bonds. Upon the execution and delivery of this Indenture, the Authority shall execute and deliver the Bonds in the principal amounts set forth in Section 2.02 hereof to the Trustee for authentication and delivery to the Original Purchaser thereof upon the Request of the Authority.

Section 3.02. Application of Proceeds of the Bonds. On the Closing Date the Trustee hereby confirms receipt from the Underwriter of \$_____ of Bond proceeds (being the \$_____ aggregate principal amount of the Bonds, [plus] [less] net original issue [premium] [discount] of \$_____, less Underwriter's discount of \$_____ and less the Bond Insurance and Reserve Policy premiums totaling \$_____) (the "Net Bond Proceeds").

The Net Bond Proceeds shall be deposited into a temporary account called the Proceeds Fund which the Trustee shall establish, maintain and hold in trust, and which shall be forthwith set aside in full on the Closing Date (whereupon said temporary account shall be closed) as follows:

- (a) The Trustee shall deposit the amount of \$_____ in the Costs of Issuance Fund, to be applied as provided in Section 3.03.
- (b) The Trustee shall deposit the amount of \$_____ in the Wastewater Fund Related Project Account within the Project Fund, to be applied as provided in Section 3.04.
- (c) The Trustee shall deposit the amount of \$_____ in the General Fund Related Project Account within the Project Fund, to be applied as provided in Section 3.04.

In addition, the Trustee shall credit the Reserve Policy to the Reserve Fund in satisfaction of the Reserve Requirement upon delivery of the Bonds.

Section 3.03. Establishment and Application of Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." There shall be deposited in the Costs of Issuance Fund the amounts indicated in Section 3.02(a). 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 sequentially numbered written Requisitions of the Authority or of the City (as agent of the Authority), substantially in the form attached hereto as Exhibit B. Upon the Request of the City as agent of the Authority,

but in no event later than 180 days after the issuance of the Bonds, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Revenue Fund.

Section 3.04. Project Fund.

(a) The Trustee shall establish, maintain and hold in trust a separate fund to be known as the “Project Fund.” Within the Project fund the Trustee shall establish and maintain (i) the Wastewater Fund Related Project Account, and (ii) the General Fund Related Project Account. There shall be deposited in the accounts within the Project Fund the amounts indicated in Section 3.02(b) and (c).

(b) Except as otherwise provided herein, 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 Requisition of the Authority or the City, substantially in the form attached hereto as Exhibit C, which: (A) states with respect to each disbursement to be made (i) the requisition number, (ii) whether the Project Cost is for the City Project, the Water Project or the Wastewater Project, (iii) the name and address of the person, firm or corporation to whom payment will be made, (iv) the amount to be disbursed, (v) the purpose for which the obligation was incurred, and (vi) 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; (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 Requisition and shall have no responsibility with respect to the application of any funds disbursed in accordance with such Requisition. Upon the filing with the Trustee of a Certificate of the Authority stating that the Project has been completed or that all 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 Revenue Fund and the Project Fund shall be closed.

Section 3.05. Reserved.

Section 3.06. Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with either the Lease Agreement or the Installment Sale Agreement. The recital contained in the Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

Section 3.07. No Additional Bonds. No Additional Bonds are permissible hereunder.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01. Terms of Redemption.

(a) Sinking Account Redemption. The Term Bonds maturing on August 1, 20__ are subject to mandatory redemption from monies in the Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each August 1, on and after August 1, 20__, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking Payment Date (<u>August 1</u>)	Principal Amount to be Redeemed
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In the event that the Trustee shall redeem Term Bonds in part but not in whole pursuant to subsection (b) of this Section 4.01, the amount of the Term Bonds to be redeemed in each subsequent year pursuant to this subsection (a) shall be reduced in such order as shall be determined by the Authority or of the City (as agent of the Authority).

In lieu of such redemption of Term Bonds pursuant to such schedules, amounts on deposit in the Sinking Account may also be used and withdrawn by the Trustee at any time upon the Request of the Authority or of the City (as agent of the Authority), for the purchase of applicable Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges) as Authority or of the City (as agent of the Authority) in its discretion may determine. The par amount of any Term Bonds so purchased by the Authority or of the City (as agent of the Authority) in any twelve-month period terminating sixty (60) days prior to the redemption date shall be credited towards and will reduce the par amount of applicable Term Bonds required to be redeemed on the next succeeding redemption date.

(b) Optional Redemption of Bonds. The Bonds maturing on or before August 1, 20__, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after August 1, 20__, are subject to redemption in whole or in part in integral multiples of \$5,000, by such maturities as are selected by the Authority (or, if the Authority fails to designate such maturities, then pro rata among maturities), and randomly within a maturity, from any source of available funds (from any source other than those provided in Section 4.01(c)), on any date on or after August 1, 20__, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

(c) Extraordinary Redemption. The Bonds shall be subject to mandatory redemption in part, on any Interest Payment Date, and shall be redeemed by the Trustee, from moneys transferred to the Redemption Fund pursuant to Section 5.07 and derived from Net Proceeds at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

Section 4.02. Selection of Bonds for Redemption. Whenever less than all of the Bonds are to be redeemed on any one date, the Trustee shall, at least sixty (60) days prior to the redemption date, receive a Cash Flow Certificate specifying the maturity or maturities of Bonds to be redeemed so that the remaining payments of principal of and interest on Local Obligations, together with other Revenues available to the Trustee, will be sufficient to pay on a timely basis the principal of and the interest on the Bonds not so redeemed when due. Additionally, whenever provision is made in this Indenture for the redemption of less than all of the Bonds of a particular maturity, the Bonds to be redeemed are required to be selected pro rata by maturity or, at the election of the Authority or of the City (as agent of the Authority) set forth in a Request of the Authority or City, as the case may be, filed with the Trustee, from such maturities as shall be determined by the Authority or City, as the case may be; and in all cases, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption randomly within a maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. 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.

Section 4.03. Notice of Redemption. The Trustee, on behalf of and at the expense of the Authority, shall provide notice of redemption, 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 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 and, if such notice pertains to optional redemption, such notice shall state that it may be rescinded as provided in this Indenture.

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 surrendered on such redemption date. 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.

The Authority shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under this Indenture. The Authority and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. Upon receipt of a written notice from the Authority, the Trustee shall mail notice of such rescission of redemption to the same recipients and in the same manner as the original notice of redemption was sent.

Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall, to the extent practicable, bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer. Trustee shall not have any responsibility for defects or inaccuracy in CUSIP numbers.

Section 4.04. 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.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the 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 this 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 this Article shall be cancelled by the Trustee upon surrender thereof and destroyed pursuant to its retention policy then in effect.

Section 4.06. Purchase in Lieu of Redemption. At any time prior to the selection of Bonds for redemption, the Trustee may, upon written direction of either the Authority or the City, apply amounts held for redemption of Bonds 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 payable from the Interest Account) as either the Authority or the City may direct the Trustee, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price of such Bonds; and provided further that in the case of optional redemption, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts for redemption may be used for payment of such Bonds to be redeemed in order of their due date as set forth in a request of either the Authority or the City.

ARTICLE V

REVENUES; FUNDS AND ACCOUNTS

Section 5.01. Pledge and Assignment; Revenue Fund.

(a) Subject only to the provisions of this 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 this Indenture are hereby pledged to secure the payment of the principal of, premium (if any) and interest on the Bonds in accordance with their terms and the provisions of this Indenture. Said pledge shall constitute a lien on and security interest in the Revenues and all other moneys on deposit in the funds and accounts established hereunder, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

(b) The Authority hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners, [the Insurer and the issuer of the Reserve Policy] to the extent set forth herein, from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in Local Obligations. 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 Article VIII [and Article XII], 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 Local Obligations.

(c) In order to carry out and effectuate the pledge, charge and lien contained herein, the Authority agrees and covenants that all Revenues, when and as received, shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which fund is hereby created and which fund Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under either the Lease Agreement or Installment Sale Agreement, as the case may be, to be deposited in either the Reserve Fund or the Redemption Fund, as the case may be, shall be promptly deposited in such Fund, as the case may be. Within the Revenue Fund the Trustee shall establish and maintain a separate Interest Account and Principal Account therein. All Revenues shall be accounted for through and held in trust in the Revenue Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only the right to receive Additional Payments to the extent payable to the Authority, and as otherwise herein provided. All Revenues, whether received by the Authority in trust or deposited with the Trustee as herein provided, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses hereinafter in this Article set forth, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

Section 5.02. Allocation of Revenues.

(a) On each Interest Payment Date, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue 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:

(1) Interest Account. On or before each Interest Payment Date, the Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds, [including any amounts owed to the Insurer,] the amount of interest becoming due and payable on the mandatory sinking account payment due on all Outstanding Term Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking account redemption). No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Bonds on such Interest Payment Date. All moneys 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 this Indenture). In the event that the amounts on deposit in the Interest Account on any

Interest Payment Date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Bonds on a pro rata basis.

(2) Principal Account. On or before each Interest Payment Date on which the principal of the Bonds is payable, 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 Interest Payment Date, [including any amounts owed to the Insurer,] the amount of principal becoming due and payable on the mandatory sinking account payment due on all Outstanding Term Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking account redemption). All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds at the maturity or sinking account payment date thereof.

(3) Reserve Fund. On or before each Interest Payment Date, the Trustee shall deposit in the Reserve Fund an amount, if any, required to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement [(including amounts necessary to replenish a draw under the Reserve Policy)] (but only to the extent that a negative balance therein is properly traced and charged to either the General Fund, the Water Enterprise or the Wastewater Enterprise, as the case may be, due to the receipt of an insufficient payment from the City under either the Lease Agreement or the Installment Sale Agreement, as the case may be).

(b) If on any Interest Payment Date or date for redemption of Bonds the amount on deposit in the Revenue Fund is inadequate to make the transfers described in subsection (a) above, the Trustee shall immediately notify the City of the amount needed to make the required deposits under subsection (a) above and shall transfer to the Revenue Fund any amounts on deposit from the Surplus Fund, as necessary to cure such deficiency.

(c) On each Interest Payment Date after making the transfers required under subsections (a) and (b) above, upon receipt of a Request of the Authority to do so, the Trustee shall transfer from the Revenue Fund to the Rebate Fund the amounts specified in such Request.

Section 5.03. Rebate Fund. The Trustee shall, when required, establish, maintain and hold in trust a separate fund designated as the Rebate Fund. The Rebate Fund will be administered in accordance with the provisions of the Indenture. The Rebate Fund will not be subject to the lien or encumbrance of the Indenture and will be held in trust by the Trustee for the benefit of the United States of America. The amounts deposited in the Rebate Fund will be subject to the claim of no other person, including that of the Trustee and Bondowners. Moneys transferred to the Rebate Fund pursuant to the Indenture will be used for no other purpose than to make payments to the United States Treasury, at the time and manner and in the amount and as more fully provided in the Indenture. The Trustee will be deemed conclusively to have complied with the provisions of the Indenture related to Rebateable Arbitrage if it follows the written directions of the City or Authority, and the Trustee will have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the City or the Authority with the provisions of the Indenture and the Tax Certificate with respect to Rebateable Arbitrage.

Section 5.04. Surplus Fund. The Surplus Fund shall be held by the Trustee. Annually, following computation and deposit of the Rebateable Arbitrage for the preceding Bond Year in the Rebate Fund (to the

extent required by the Indenture) and provided there is no deficiency in the Interest Account, the Principal Account, the Reserve Fund, or the Rebate Fund (and any amounts due to the Insurer and the issuer of the Reserve Policy have been paid), any moneys in the Surplus Fund shall be released from the lien of the Indenture, not less frequently than annually, provided no Event of Default has been declared under the Indenture or the Installment Sale Agreements, the amounts on deposit in the Surplus Fund as of the conclusion of the immediately preceding Bond Year shall be transferred to the City for any lawful purpose.

If, on or before any Interest Payment Date, there is a deficiency in the Interest Account, the Principal Account, the Reserve Fund (including any amounts related to any draw on the Reserve Policy), or the Rebate Fund, the Trustee shall withdraw from the Surplus Fund and deposit in such Account, in the order and in the manner set forth in Section 5.02(a), the amount necessary to remedy such deficiency and shall give written notice to the Authority of such withdrawal.

Section 5.05. Application of Sinking Account. The Trustee shall establish and maintain the Sinking Account, and all moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee in the manner set forth in Section 5.02(a) for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to Section 4.01(a).

Section 5.06. Application of Reserve Fund. The Trustee shall establish and maintain the Reserve Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium (if any) on the Bonds as set forth herein, and applied in the following manner:

(a) All amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption pursuant to Section 4.01(a) when due and payable to the extent that moneys deposited in the Interest Account or the Principal Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal and interest on the Bonds [(excluding amounts from any Reserve Policy)]. On the date on which all Bonds shall be retired hereunder or provision made therefor pursuant to Article X, any moneys then on deposit in the Reserve Fund shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Bonds. The City agrees to use the proceeds of any such refund in a manner which does not (i) impair the exclusion from gross income for purposes of federal income taxation under the Code of the interest payable on the Bonds, or (ii) result in any violation of State law.

(b) If at any time the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Trustee shall promptly notify the City in writing, and the City shall then determine (i) which Local Obligation caused such deficiency, and (ii) the amount of such deficiency; and the City shall then pay to the Trustee the amount of such deficiency as provided in either the Installment Sale Agreement or the Lease Agreement, as the case may be. Any amounts on deposit in the Reserve Fund in excess of the Reserve Requirement, as valued on the day immediately preceding each Interest Payment Date, shall be transferred by the Trustee to the Revenue Fund, as provided in Section 5.08.

(c) If, on any date, moneys on deposit in the Reserve Fund, together with allocable amounts then on deposit in the Revenue Fund, are sufficient to pay all Outstanding Bonds, including all respective principal thereof, and interest thereon, the Trustee shall, upon written request of the City or Authority, transfer such allocable amounts then on deposit in the Reserve Fund, together with such allocable amounts in the Revenue Fund, to the Redemption Fund to be applied to the redemption of such Bonds in accordance with the provisions

of Section 4.01(b), hereof. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Bonds, shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Installment Payments and/or Base rental Payments, as the case may be. The City agrees to use the proceeds of any such refund in a manner which (i) does not impair the exclusion from gross income for purposes of federal income taxation under the Code of the interest payable on the Bonds, or (ii) result in any violation of State law.

(d) The City and the Authority shall have the right at any time, upon prior written consent of the Insurer, to direct the Trustee to release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Fund Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Fund Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the City or Authority to the Trustee of written calculation of the amount permitted to be released from the Reserve Fund (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Fund to the Revenue Fund to be used for the purposes thereof. The Trustee shall comply with all documentation relating to a Qualified Reserve Fund Credit Instrument as shall be required to maintain such Qualified Reserve Fund Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under this Section 5.06. Upon the expiration of any Qualified Reserve Fund Credit Instrument, the Authority shall either (i) replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Revenues legally available for such purpose. If the Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Fund Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a). If the Reserve Requirement is being maintained with two or more Qualified Reserve Fund Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) shall be pro-rata with respect to each such instrument.

Section 5.07. 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 and premium (if any) on the Bonds to be redeemed pursuant to Section 4.01(b) or (c), provided, however, that at any time prior to giving notice of redemption of any such Bonds, the Trustee may, at the direction of the City or the Authority, apply amounts deposited or otherwise to be deposited in the Redemption Fund 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 on Bonds, which is payable from the Interest Account) as shall be directed pursuant to a Request of the Authority or a Request of the City, as agent of the Authority.

Section 5.08. Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to this Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority pursuant to a Request of the City as agent for the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments. Moneys in the Reserve Fund shall not be invested in Permitted Investments having a maturity of more than five (5) years. In the absence of any such directions from the City as agent for the Authority, the Trustee shall invest any such

moneys in a Permitted Investment described in clause B(4) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction specifying a specific money market fund and, if no such written direction is so received, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. The Trustee may rely on investment instructions without further inquiry regarding qualification of the investment permitted hereunder.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Revenue Fund, except that interest or gain from investment or amounts in the Project Fund and Costs of Issuance Account shall be retained therein, respectively, and used for the purposes thereof, and interest or gain derived from the investment of the amount in the Reserve Fund shall be retained therein unless such amount equals the Reserve Requirement and any amount, no later than the Business Day immediately preceding each Interest Payment Date, in the Reserve Fund in excess of the Reserve Requirement shall be deposited in the Revenue Fund. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. With respect to any Permitted Investment for which the Trustee or an affiliate shall provide services, the Trustee shall be entitled to its customary fees including any investment management fees. The Trustee shall incur no liability for losses arising from any investments made in accordance with the written instructions of the Authority or the City.

The Authority (and the City by its execution of the Installment Sale Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority or the City the right to receive brokerage confirmations of security transactions as they occur, the Authority and the City will not receive such confirmations to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker. The Trustee will furnish the Authority and the City monthly (unless some other arrangement is mutually agreed to in writing) cash transaction statements which include detail for all investment transactions made by the Trustee hereunder. Upon the Authority's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request.

The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

For the purpose of determining the amount in any fund or account, the value of Permitted Investments (except investment agreements) credited to such fund shall be valued at Fair Market Value. In making such valuations, Trustee may rely exclusively on such valuation services as may be available to Trustee, including those within its regular accounting systems.

Except as otherwise provided in the following sentence, the City covenants that all investments of amounts deposited in any fund or account created by or pursuant to this 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 this Indenture or the Code) at Fair Market Value. 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 Fund shall be valued at their present value (within the meaning of Section 148 of the Code).

ARTICLE VI

PARTICULAR COVENANTS

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

Section 6.02. 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 this 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 this Section 6.02 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.

Section 6.03. 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 this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created in favor of the Bonds by this 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.

Section 6.04. 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 this Indenture and to pledge and assign the Installment Sale Agreements, the Revenues and other assets purported to be pledged and assigned, respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this 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 Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of the Installment Sale Agreements, the Revenues and other assets and all the rights of the Bondowners, the Insurer and the issuer of the Reserve Policy, under this Indenture against all claims and demands of all persons whomsoever.

Section 6.05. Accounting Records. The Trustee shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Lease Agreement and the Installment Sale Agreement, and all funds and accounts established pursuant to this Indenture consistent with the Trustee's record keeping practices in effect from time to time. 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 zero balance 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 this Indenture.

Section 6.06. 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, except as provided herein with respect to the Bonds.

Section 6.07. No Arbitrage. The Authority shall not take, or permit 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 date of issuance of the Bonds would have caused the Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

Section 6.08. Compliance with Rebate Requirements. The Authority shall 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.

Section 6.09. 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(b) of the Code, or the private loan financing test of section 141(c) of the Code.

Section 6.10. 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.

Section 6.11. Continuing Disclosure. Pursuant to Section 5.11 of each Installment Sale Agreement, the City has undertaken all responsibility for compliance with continuing disclosure requirements with respect to the Bonds and neither the Authority nor the Trustee shall have any liability to the Owners of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of this 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. The Trustee shall have no duties or liabilities with respect to any such Continuing Disclosure Certificate.

Section 6.12. Enforcement and Amendment of Local Obligations. The Authority shall enforce all of its rights with respect to the Local Obligations to the fullest extent necessary to preserve the rights and protect the security of the Owners under this Indenture.

The Authority and the Trustee may, without the consent of or notice to the Owners, [but with the prior written consent of the Bond Insurer,] consent to any amendment, change or modification of any Local Obligation that may be required (a) to conform to the provisions of this Indenture (including any modifications or changes contained in any Supplemental Indenture), (b) for the purpose of curing any ambiguity or inconsistency or formal defect or omission, (c) to add additional rights acquired in accordance with the provisions of such Local Obligation, (d) in connection with any other change therein which is not to the material prejudice of the Trustee or the Owners of the Bonds pursuant to an Opinion of Bond Counsel, or (e) in the

Opinion of Bond Counsel, to preserve or assure the exemption of interest on the Local Obligation or the Bonds from federal income taxes or the exemption from California personal income tax.

Except for amendments, changes or modifications provided for in the preceding paragraph, the Authority shall not amend, modify or terminate any of the terms of the Local Obligations, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee [and the Bond Insurer]. The Trustee shall give such written consent only if the Trustee shall receive (a) the opinion of Bond Counsel that such amendment, modification or termination is permitted under the Indenture and will not materially adversely affect the interests of the Owners or the Insurer, or (b) the written consent of the Insurer and the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment, modification or termination.

Nothing contained in this Section shall be construed to prevent the Trustee, with the consent of the Authority, from settling a default under any Obligation on such terms as the Trustee may determine to be in the best interests of the Owners. Notwithstanding any contrary provision of this Section 6.12, all Amendments shall be deemed to be in compliance with this Section 6.12 without further action.

Section 6.13. 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 this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

Section 6.14. 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 this Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Indenture.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Section 7.01. Events of Default. The following events shall be Events of Default hereunder:

(a) Default in the due and punctual payment of the principal of or premium, if any, on any Bond 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 Bond when and as the same shall become due and payable.

(c) If the Authority shall fail to observe or perform in any material way any of the other covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, if such failure 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 or the Insurer; 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” within the meaning of Section 8.1 of the Installment Sale Agreement and/or Section 11 of the Lease Agreement, as the case may be.

Section 7.02. 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 at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall, 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 else in this 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, agents, and advisors) 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.

Section 7.03. 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 this Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the reasonable 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 internal costs of administration and in-house counsel and reasonable fees and disbursements of its outside counsel) incurred in and about the performance of its powers and duties under this Indenture. Any such costs and expenses are deemed to be reasonable costs of administration hereunder or as required under the Federal Bankruptcy Act;

(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 this Indenture, as follows:

First: To the payment to the persons entitled thereto, [including amounts owed to the Insurer,] 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; and

[(c) To the payment of any amounts due and owing to the Insurer (not provided by First and Second above, and amounts due and owing to the issuer of the Reserve Policy).]

Section 7.04. Trustee to Represent Bondowners. The Trustee is hereby 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, this Indenture and applicable provisions of any law. Counsel to the Trustee is not counsel to the Bondholders and communications between the Trustee and such counsel are privileged. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondowners, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) 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, this Indenture, the Act, the Bond Law 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 this Indenture, pending such proceedings. All rights of action under this 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 this Indenture.

Section 7.05. Bondowners' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, but subject to Article XII, 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 this Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondowners not parties to such direction or would expose the Trustee to liability.

Section 7.06. Limitation on Bondowners' Right to Sue. 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 this Indenture, the Installment Sale Agreements or any 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 not less than 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 not less than a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby 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 this Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, this Indenture, the Installment Sale Agreement or 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 this Indenture.

Section 7.07. Absolute Obligation of Authority. Nothing in Section 7.06 or in any other provision of this 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 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.

Section 7.08. Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondowners 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 Bondowners, then in every such case the Authority, the Trustee and the Bondowners, 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 Bondowners shall continue as though no such proceedings had been taken.

Section 7.09. 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.

Section 7.10. 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 this Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Section 7.11. Parties Interested Herein. Nothing in this 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, a Credit Provider or the Trustee, their officers, employees and agents, and the Owners any right, remedy or claim under or by reason of this Indenture, or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the City, the Authority, a Credit Provider or the Trustee, their officers, employees and agents, and the Owners.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee.

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

(b) The Authority may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section 8.01, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and the City and thereupon shall appoint, with the written consent of the City, a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City and by giving the Bondowners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority shall promptly appoint, with the written consent of the City, a successor Trustee by an instrument in writing.

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

(e) Any Trustee appointed under this Indenture shall be a corporation or association organized and doing business under the laws of any state or the United States of America or the City of Columbia, authorized under such laws to exercise corporate trust powers, which shall have (or, in the case of a corporation included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or State authority, so long as any Bonds are Outstanding. If such corporation publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to, then, for the purpose of this subsection (e), the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Section 8.02. Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust

company shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03. Liability of Trustee.

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee shall have no responsibility or liability for the correctness of the same and makes no representations whatsoever as to the validity or sufficiency of this Indenture, the Bonds or the Installment Sale Agreement, nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondowners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

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

(c) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture. Where the Trustee is given permissive right to do things enumerated in this Indenture, such right shall not be construed as a duty.

(d) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder or any "Event of Default" under the Installment Sale Agreements or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder or any "Event of Default" under the Installment Sale Agreements unless and until the corporate trust officer responsible for the administration of this trust shall have received written notice thereof, at its corporate trust Office. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the Authority or the City of any of the terms, conditions, covenants or agreements herein under, the Installment Sale Agreements, or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain or inquire as to the performance or observance by the City and the Authority of the terms, conditions, covenants or agreements set forth in the Installment Sale Agreements, other than the covenants of the City to make Installment Payments to the Trustee when due and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee thereunder.

(e) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of

any of its rights or powers. Under no circumstances shall the Trustee in its individual capacity for the obligations evidenced by the Bonds.

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

(g) Whether or not therein expressly so provided, every provision of this Indenture and the Installment Sale Agreements relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of Section 8.01(a), this Section 8.03 and Section 8.04 hereof.

(h) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

(i) The Trustee makes no representation or warranty, expressed or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or the City of the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Installment Sale Agreements or this Indenture for the existence, furnishing or use of the Project.

(j) The Trustee may execute any of the trusts, or powers hereunder and perform the duties required of it here under either directly or by or through attorneys, receivers or agents, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder.

(k) At any and all reasonable times the Trustee and its duly authorized agents, attorneys, experts, accountants and representatives, shall have the right (but not the duty) to fully inspect all books, papers and records of the Authority pertaining to the Bonds, and to make copies of any of such books, papers and records which are not privileged by statute or by law.

(l) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises hereof.

(m) All moneys received by the Trustee shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law.

(n) Whether or not expressly provided therein, every provision of this Indenture and the Installment Sale Agreements relating to the conduct or affecting the liability of the Trustee shall be subject to the provisions of this Section.

Section 8.04. Right to Rely on Documents. Notwithstanding anything to the contrary herein, the Trustee shall have no liability for acting upon any notice, resolution, request, consent, order, certificate, report,

opinion, bonds or other paper or document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties. Notwithstanding anything to the contrary herein, the Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in all events at any time in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

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

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the Authority or the City, and such Certificate, Request or Requisition shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable. The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum of any other disclosure material prepared or distributed with respect to the Bonds.

Section 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in the Trustee's possession in accordance with its record retention policy and shall be subject at all reasonable times to the inspection of the Authority, the City and any Bondowner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Section 8.06. Compensation and Indemnification. The Authority shall pay to the Trustee (solely from Additional Payments) from time to time the compensation for all services rendered under this Indenture, and also all reasonable expenses and disbursements, incurred in and about the performance of their powers and duties under this Indenture, in accordance with a separate written fee agreement between the Authority and the Trustee.

The Authority shall indemnify, defend and hold harmless the Trustee against any loss, liability, damage, cost or expense incurred without gross negligence or willful misconduct on the Trustee's part, arising out of or in connection with the Bonds or the acceptance or administration of this trust, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder. Upon the occurrence of an Event of a Default hereunder, as security for the performance of the obligations of the Authority under this Section 8.06 and the obligation of the City to make Additional Payments to the Trustee, the Trustee shall have a lien prior to the lien of the Bonds upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal or interest on particular Bonds. The rights of the Trustee and the obligations of the Authority under this Section 8.06 shall survive the discharge of the Bonds and this Indenture and any resignation or removal of the Trustee.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

Section 9.01. Amendments Permitted.

(a) This 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 when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, shall have been filed with the Trustee. 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 this Indenture prior to or on a parity with the lien created by this Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by this Indenture on such Revenues and other assets (except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondowners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall at the written direction of the Authority, mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each rating agency then rating the Bonds and the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) This 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, without the consent of any Bondowners, 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 this 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 this Indenture, or in regard to matters or questions arising under this Indenture, as the Authority may deem necessary or desirable;

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

(v) to comply with the requirements of a provider of a Qualified Reserve Fund Credit Instrument;

(vi) to facilitate the issuance of Parity Obligations by the City pursuant to the Installment Sale Agreements, and

(vii) any amendment which does not materially adversely affect the interests of the Owners of the Bonds or the Insurer.

(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) of this Section 9.01 which affects the Trustee's own rights, duties or immunities under this 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 this 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.

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

Section 9.03. 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 Office of the Trustee 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 Office of the Trustee, without cost to any Bondowner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same series and maturity.

Section 9.04. Amendment of Particular Bonds. The provisions of this Article IX shall not prevent any Bondowner from accepting any amendment as to the particular Bonds held by him.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. The Bonds, or any portion thereof, 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, as applicable, and interest on the Bonds, or any portion thereof, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or Defeasance Obligations in the necessary amount (as provided in Section 10.03) to pay or redeem all Bonds, or any portion thereof then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the Bonds, or any portion thereof then Outstanding.

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 Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and the pledge of Revenues and other assets made under this Indenture and all covenants, agreements and other obligations of the Authority under this Indenture with respect to the Bonds so paid or delivered for cancellation, as applicable, shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Request of the Authority, the Trustee shall take all such actions and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, including, without limitation, the selection by lot of the Bonds of any maturity that is to be defeased in part, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by them pursuant to this Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption to the City.

Section 10.02. 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 Section 10.03) 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 Article IV 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 Section 10.04.

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.

Section 10.03. Deposit of Money or Securities with Trustee. Whenever in this 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 this Indenture (exclusive of the Project Fund) 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 Article IV 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, all unpaid interest thereon to the redemption date and redemption premium (if any); or

(b) Defeasance Obligations the principal of and interest on which when due will, in the written opinion of an Accountant (the "Verification") filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of, as applicable, and all unpaid interest to maturity, or to the redemption date, and, if applicable, redemptions premium as the case may be, on the Bonds to be paid or redeemed, as such principal, interest 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 Article IV 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 this Indenture or by Request of the Authority) to apply such money to the payment of such principal, interest and (if applicable) redemption premium 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 this Indenture (which opinion may rely upon and assume the accuracy of the Verification referred to above).

Section 10.04. Payment of Bonds After Discharge of Indenture. Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for two (2) years after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the Authority for the payment of the interest and premium (if any) on and principal of such Bonds.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Liability of Authority Limited to Revenues. Notwithstanding anything in this Indenture or in the Bonds contained, the Authority shall not be required or obligated or liable to advance any moneys derived from any source other than the Revenues and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal or interest on the Bonds or for any other purpose of this Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes.

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

Section 11.03. Limitation of Rights to Parties and Bondowners. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City, a Credit Provider and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City, a Credit Provider and the Owners of the Bonds.

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

Section 11.05. Destruction of Bonds. All cancelled Bonds held by the Trustee shall be destroyed and a certificate of such destruction shall be filed by the Trustee with the Authority. Whenever in this Indenture provision is made for the surrender to the Authority of any Bonds which have been paid or cancelled pursuant to the provisions of this Indenture, a certificate of destruction duly executed by the Trustee shall be deemed to be the equivalent of the surrender of such canceled Bonds and the Authority shall be entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such Bonds therein referred to.

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

Section 11.07. Notices. Any notice, request, complaint, demand or other communication hereunder shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by teletype, telex or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon confirmed transmission by teletype, telex or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt.

If to the City: City of Mount Shasta
305 N. Mt. Shasta Boulevard
Mount Shasta, CA 96067
Attention: City Manager
Fax: (530) ___ - ____

If to the Authority: Mount Shasta Public Financing Authority
305 N. Mt. Shasta Boulevard
Mount Shasta, CA 96067
Attention: Executive Director
Fax: (530) ___ - ____

If to the Trustee: U.S. Bank National Association
Corporate Trust Services
_____, Suite ____
San Francisco, CA 94104
Fax: (415) ___ - ____
Email:

[If to the Insurer: See Section __.__() hereof]

The parties above may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

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

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

The ownership of Bonds shall be proved by the Registration Books.

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

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

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

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

Section 11.12. Waiver of Personal Liability. No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

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

ARTICLE XII

PROVISIONS RELATING TO THE INSURANCE POLICY AND RESERVE POLICY

Section 12.01. Bond Insurance Provisions.

To be determined.

Section 12.02. Provisions Relating to Reserve Policy.

To be determined.

IN WITNESS WHEREOF, the MOUNT SHASTA PUBLIC FINANCING AUTHORITY has caused this Indenture to be signed in its name by its Executive Director and attested to by its Secretary, and U.S. Bank National Association, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

AUTHORITY

MOUNT SHASTA PUBLIC FINANCING

By: _____
Margaret Silveira, Executive Director

Attest:

By: _____

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

FORM OF BOND

No. R-

\$ _____

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF LAKE**

**\$ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATED DATE</u>	<u>CUSIP</u>
	August 1, 20__	October __, 2019	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

The MOUNT SHASTA PUBLIC FINANCING AUTHORITY (the "Authority"), a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated as of May 13, 2019, by and between the City of Mount Shasta, a municipal corporation and general law city (the "City") and the Mount Shasta Industrial Development Authority under the provisions of Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above in lawful money of the United States of America, and to pay interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless (i) this Bond is authenticated on or before an interest payment date and after the close of business on the fifteenth day of the month preceding such interest payment date (the "Record Date"), in which event it shall bear interest from such interest payment date, or (ii) this Bond is authenticated on or before January 15, 2020, in which event it shall bear interest from the Dated Date identified above; provided, however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on this Bond), at the Interest Rate per annum specified above, payable semiannually on February 1 and August 1 of each year, commencing February 1, 2020 (each an "Interest Payment Date"), calculated on the basis of a 360-day year composed of twelve 30-day months. Principal hereof and premium, if any, upon early redemption hereof are payable upon presentation and surrender hereof at the corporate trust office of U.S. Bank National

Association, in San Francisco, California, as trustee (the “Trustee”), or such other place as designated by the Trustee (the “Corporate Trust Office”).

Interest hereon is payable by check of the Trustee mailed by first class mail to the Registered Owner hereof at the Registered Owner’s address as it appears on the registration books of the Trustee as of the Record Date, or, upon written request filed with the Trustee not later than the Record Date by a Registered Owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account in the United States of America designated by such Registered Owner in such written request.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the “Mount Shasta Public Financing Authority, Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project) Bank Qualified” (the “Bonds”), in an aggregate principal amount of ___ Million ___ Hundred ___ Thousand Dollars (\$ _____), all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates or redemption provisions) and all issued pursuant to the provisions of Article 4 (commencing with Section 6584) of the Act (the “Bond Law”) and pursuant to an Indenture of Trust, dated as of October 1, 2019, by and among the City, the Authority and the Trustee (the “Indenture”), and a resolution of the Board of Directors of the Authority adopted on September 23, 2019, authorizing the issuance of the Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the Authority) and all supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Revenues (as defined in the Indenture), and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Authority thereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued by the Authority to aid in financing of certain solar and energy efficiency improvements to be sold to the City pursuant to an Installment Sale Agreement, dated as of October 1, 2019, by and between the Authority and the City (the “Installment Sale Agreement”), and leased to the City pursuant to the Lease Agreement, dated as of October 1, 2019, by and between the Authority and the City (the “Lease Agreement”).

Reference is hereby made to the Installment Sale Agreement and Lease Agreement (copies of which are on file at the office of the Authority) and all supplements thereto for a description of the provisions with regard to the nature and extent of the Installment Payments and Base Rental Payments as those terms are defined in the Installment Sale Agreement and Lease Agreement, respectively, and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Authority thereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

This Bond and the interest hereon and all other Bonds and the interest thereon (to the extent set forth in the Indenture) are special obligations of the Authority, and are payable from, and are secured by a charge and lien on the Revenues (as defined in the Indenture) consisting primarily of Installment Payments and Base Rental Payments as those terms are defined in the Installment Sale Agreement and Lease Agreement, respectively. As and to the extent set forth in the Indenture, all of the Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest on the Bonds. Notwithstanding the foregoing, in accordance with the Indenture, certain of the Revenues may be applied for other purposes as provided in the Indenture.

Sinking Account Redemption of Bonds. The Term Bonds maturing on August 1, 20__ are subject to mandatory redemption from monies in the Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each August 1, on and after August 1, 20__, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking Payment Date (<u>August 1</u>)	Principal Amount to be Redeemed
--	------------------------------------

In the event that the Trustee shall redeem Term Bonds in part but not in whole pursuant to Section 4.01(b) of the Indenture, the amount of the Term Bonds to be redeemed in each subsequent year pursuant to this subsection (a) shall be reduced in such order as shall be determined by the Authority or of the City (as agent of the Authority).

Optional Redemption. The Bonds maturing on or before August 1, 20__, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after August 1, 20__, are subject to redemption in whole or in part in integral multiples of \$5,000, by such maturities as are selected by the Authority (or, if the Authority fails to designate such maturities, then pro rata among maturities), and randomly within a maturity, from any source of available funds (from any source other than those provided in Section 4.01(c) of the Indenture), on any date on or after August 1, 20__, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

Extraordinary Redemption from Insurance and Condemnation Proceeds. The Bonds shall be subject to mandatory redemption in whole or in part, on any Interest Payment Date, and shall be redeemed by the Trustee, from moneys transferred to the Redemption Fund pursuant to Section 5.07 of the Indenture and derived from Net Proceeds at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

As provided in the Indenture, notice of redemption shall be mailed by first class mail not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the respective owners of any Bonds designated for redemption at their addresses appearing on the Bond registration books of the Trustee, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption. If such notice pertains to redemption of Bonds at the option of the Authority, such notice of redemption may be rescinded by the Authority, as provided in the Indenture.

The Authority will have the right to rescind any optional redemption by written notice of rescission. The Trustee is required to mail notice of rescission of such redemption in the same manner as the original notice of redemption was sent.

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

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

The Bonds are issuable only as fully registered Bonds without coupons in denominations of \$5,000 or any integral multiple thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, fully registered Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount and maturity of fully registered Bonds of other authorized denominations.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor. This Bond may be exchanged at the Corporate Trust Office of the Trustee for Bonds of the same tenor, aggregate principal amount, interest rate and maturity, of other authorized denominations.

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

The rights and obligations of the Authority and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the owner of such Bond, or shall reduce the percentages of the owners required to effect any such modification or amendment.

This Bond is not a debt, liability or obligation of the City, the County of Siskiyou, the State of California, or any of its political subdivisions, and neither said City, said County, said State, nor any of its political subdivisions, is liable or responsible hereon nor in any event shall this Bond be payable out of any funds or properties other than the Revenues.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or the Trustee for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE

HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

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

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

IN WITNESS WHEREOF, the Mount Shasta Public Financing Authority has caused this Bond to be executed in its name and on its behalf with the manual or facsimile signature of its Executive Director and attested to by the facsimile signature of its Deputy Secretary, all as of October __, 2019.

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

By: _____
Bruce D. Pope, Executive Director

Attest:

By: _____
Deputy Secretary

(FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION)

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

Dated: _____

U.S. Bank National Association,
as Trustee

By _____
Authorized Signatory

(FORM OF ASSIGNMENT)

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

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

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

Dated: _____

Signature Guaranteed: _____

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

Note: Signature(s) must be guaranteed by an eligible guarantor.

EXHIBIT B

**§ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED**

**FORM OF REQUISITION
FOR DISBURSEMENT FROM COSTS OF ISSUANCE FUND**

The undersigned, as City Manager of the City of Mount Shasta, a municipal corporation and general law city (the “City”), as agent for the Mount Shasta Public Financing Authority (the “Authority”), in connection with the issuance, sale and delivery by the Authority of the above-captioned \$ _____ aggregate principal amount of the Mount Shasta Public Financing Authority, Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project) Bank Qualified (the “Bonds”), issued in accordance with the Indenture, dated as of October 1, 2019 (the “Indenture”), between the Authority and U.S. Bank National Association, as the trustee named therein (the “Trustee”), does hereby certify that:

(i) the undersigned is a duly Authorized Representative (as defined in the Indenture) with authority to act on behalf of the City and Authority as necessary in connection with issuance and delivery of the Bonds, and as such, is authorized to disburse money from the Costs of Issuance Fund for the Bonds (the “Costs of Issuance Fund”);

(ii) an obligation in the not-to-exceed amount stated for each of the payees set forth on Exhibit “A” has been properly incurred under and pursuant to the Indenture and each such obligation is a proper charge against the Costs of Issuance Fund;

(iii) that pursuant to the Indenture, the undersigned, on behalf of the City and the Authority, hereby requests the Trustee to disburse from the Costs of Issuance Fund to the payees set forth on Exhibit A attached hereto, upon receipt of an invoice, an amount not to exceed the sum set forth opposite each such payee, for the purpose identified therein; and

(iv) all payments shall be made by check or wire transfer in accordance with the payment instructions set forth in Exhibit A attached hereto or in invoices submitted in accordance herewith, and the Trustee may rely on such payment instructions as though given by the City and the Authority, with no duty to investigate or inquire as to the authenticity of the invoice or the payment instructions contained therein.

Dated: October __, 2019

CITY OF MOUNT SHASTA, CALIFORNIA

By: _____
Bruce D. Pope, City Manager

EXHIBIT C

§ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED

FORM OF REQUISITION
FOR DISBURSEMENT FROM PROJECT FUND

The undersigned, being an Authorized Representative (as defined in the Indenture) of the City of Mount Shasta, a municipal corporation and general law city (the “City”), as agent for the Mount Shasta Public Financing Authority (the “Authority”), in connection with the issuance, sale and delivery by the Authority of the above-captioned \$ _____ aggregate principal amount of the Mount Shasta Public Financing Authority, Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project) Bank Qualified (the “Bonds”), issued in accordance with the Indenture, dated as of October 1, 2019 (the “Indenture”), between the Authority and U.S. Bank National Association, as the trustee named therein (the “Trustee”), does hereby certify that:

(i) the undersigned is a duly Authorized Representative (as defined in the Indenture) with authority to act on behalf of the City and Authority as necessary in connection with disbursements of Project Costs, and as such, is authorized to disburse money from the Project Fund for the Bonds (the “Project Fund”);

(ii) the Project Cost is for [identify whether it’s for the City Project, the Water Project or the Wastewater Project];

(ii) an obligation in the not-to-exceed amount stated for each of the payees set forth on Exhibit “A” has been properly incurred as a Project Cost under and pursuant to the Indenture, and each such obligation is a proper charge against the Project Fund;

(iii) no amount set forth in the requisition was included in any requisition requesting disbursement previously filed with the Trustee pursuant to Section 3.04 of the Indenture;

(iv) that all conditions precedent set forth in the Installment Sale Agreements (as defined in the Indenture) with respect to such disbursement have been satisfied;

(v) that pursuant to the Indenture, the undersigned, on behalf of the City and the Authority, hereby requests the Trustee to disburse from the Project Fund to the payees set forth on Exhibit A attached hereto, upon receipt of an invoice, an amount not to exceed the sum set forth opposite each such payee, for the purpose identified therein; and

(vi) there has not been filed with or served upon the City a stop notice or any other notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the money payable to the person named in this Requisition which has not been released or will not be released with the

payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of laws.

(vii) all payments shall be made by check or wire transfer in accordance with the payment instructions set forth in Exhibit A attached hereto or in invoices submitted in accordance herewith, and the Trustee may rely on such payment instructions as though given by the City and the Authority, with no duty to investigate or inquire as to the authenticity of the invoice or the payment instructions contained therein.

Dated: _____, 20__

CITY OF MOUNT SHASTA, CALIFORNIA

By: _____
Authorized Representative

RECORDING REQUESTED BY:)
City of Mount Shasta)
)
WHEN RECORDED MAIL TO:)
The Weist Law Firm)
20 South Santa Cruz Avenue, Suite 300)
Los Gatos, California 95030)
Attn: Cameron A. Weist, Esq.)
)

(DO NOT WRITE ABOVE LINE - SPACE FOR RECORDERS USE ONLY)

THIS IS A FINANCING DOCUMENT RECORDED FOR THE BENEFIT OF THE CITY OF MOUNT SHASTA. THIS TRANSACTION IS EXEMPT FROM DOCUMENTARY TRANSFER TAX PURSUANT TO SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

SITE AND FACILITIES LEASE

Dated as of October 1, 2019

by and between the

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

and the

CITY OF MOUNT SHASTA

Relating to the

\$ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED

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SITE AND FACILITIES LEASE

This Site and Facilities Lease (the “Site Lease”), dated as of October 1, 2019, is made by and between the CITY OF MOUNT SHASTA, a political subdivision of the State of California (the “City”), as lessor, and the MOUNT SHASTA PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency, duly organized and existing under the laws of the State of California (the “Authority”), as lessee.

RECITALS:

WHEREAS, the City desires to finance the design, construction, installation, reimbursement and/or acquisition of certain capital improvements consisting of a new corporate yard garage and solar facilities and related improvements (the “Project”);

WHEREAS, in order to finance the Project, the City wishes to lease to the Authority certain real property (the “Site”) along with the improvement thereon (the “Facilities,” and together with the Site, the “Leased Property”); and

WHEREAS, the Leased Property is more particularly described in Exhibit A hereto;

WHEREAS, the Authority has determined to issue its Series 2019 Lease Revenue Bonds, (the “Bonds”) pursuant to an Indenture, dated as of October 1, 2019 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”); and

WHEREAS, the Authority, concurrently with the execution of this Site Lease, will lease the Leased Property to the City pursuant to a Lease Agreement, dated as of October 1, 2019 (the “Lease”), by and between the City and the Authority, in consideration for base rental payments (the “Base Rental Payments”) equal to the principal and interest coming due on the Bonds; and

WHEREAS, all rights to receive the Base Rental Payments have been assigned without recourse by the Authority to the Trustee pursuant to an Assignment Agreement, dated as of the date hereof (the “Assignment Agreement”); and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Site Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Site Lease; and

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenant contained herein and for other valuable consideration, the parties hereto do hereby agree as follows:

SECTION 1. DEFINITIONS.

Terms used herein and not otherwise defined herein but defined in the Indenture shall have the meanings ascribed to them in the Indenture or the Lease, as applicable.

SECTION 2. SITE LEASE; TERM.

The City hereby leases the Leased Property to the Authority and the Authority hereby leases the Leased Property from the City, on the terms and conditions hereinafter set forth.

The term of this Site Lease shall commence on October __, 2019, or the date this Site Lease is recorded in the Official Records of Siskiyou County, California, whichever is later, and shall expire on the earliest of (i) the Expiration Date; (ii) the date the last Base Rental Payment is made under the provisions of the Lease; or (iii) the date of discharge of the Indenture pursuant to Section 9.03 thereof. Notwithstanding the foregoing, the term of this Lease shall automatically be extended for a period of ten (10) years, if, on the Expiration Date, the Indenture has not been fully discharged, and shall terminate on the date when the Indenture has been fully discharged.

SECTION 3. RENTAL.

The Authority agrees to pay to the Trustee, on the Closing Date, the proceeds of the Bonds, as advance rental for the use and right to possession of the Leased Property for the term of this Site Lease. The rental shall be applied by the Trustee as provided in the Indenture.

SECTION 4. TITLE.

In accordance with the Lease, the City shall obtain, at its own cost and expense, a CLTA or ALTA policy of title insurance at the time of and dated as of the date of execution and delivery of the Bonds in an amount not less than the aggregate principal amount of the Bonds, payable to the Trustee, insuring the respective interests of the City and the Authority in the Leased Property, and insuring the validity of this Site Lease and the Lease, issued by a title insurance company qualified to do business in the State of California. Throughout the term of this Site Lease, title to the Leased Property shall remain in the City.

SECTION 5. DEFAULT.

(a) If the Authority shall fail to keep, observe or perform any term, covenant or condition contained herein to be kept or performed by the Authority, or (b) if (1) the Authority's interest in this Site Lease or any part thereof is assigned or transferred without the written consent of the City, either voluntarily or by operation of law or otherwise, except as provided in Section 9 hereof, or (2) any proceeding under the United States Bankruptcy Code or any federal or state bankruptcy, insolvency or similar law providing for the appointment of a receiver, liquidator, trustee or similar official of the Authority or of all or substantially all of its assets is instituted by or with the consent of the Authority, or is instituted without its consent and is not permanently stayed or dismissed within sixty (60) days, or if the Authority offers to the Authority's creditors to effect a composition or extension of time to pay the Authority's debts, or asks, seeks or prays for a reorganization or to effect a plan or reorganization or for readjustment of the Authority's debts, or if the Authority shall make a general assignment or any assignment for the benefit of the Authority's creditors, then the Authority shall be deemed to be in default hereunder and it shall be lawful for the City to exercise any and all rights and remedies available pursuant to law; provided however, that: (i) no merger of this Site Lease and of the Lease shall be deemed to occur as a result thereof; and (ii) so long as any Bonds remain outstanding the City shall have no power to terminate this Site Lease by reason of any default on the part of the Authority if such termination would prejudice the exercise of the remedies provided in Section 11 of the Lease.

Neither the City nor the Authority shall in any event be in default in the performance of any of its obligations here under or imposed by law unless and until the City or the Authority (as the case may be) shall have failed to perform such obligations within sixty (60) days after notice by the Authority or the City to the nonperforming party properly specifying wherein such party has failed to perform any such obligation.

SECTION 6. EMINENT DOMAIN.

If the whole or any part of the Leased Property shall be taken under the power of eminent domain, the interest of the Authority shall be recognized and is hereby determined to be the amount of the unpaid principal components of Base Rental Payments due under the Lease, and all accrued interest thereon, and the amount of the unpaid Additional Rental Payments due under the Lease, and the balance of the award, if any, shall be paid to the City,

SECTION 7. RIGHT OF ENTRY.

The City and its assignees shall have the right to enter the Leased Property during reasonable business hours (and in emergencies at all times) (a) to inspect the same, (b) for any purpose connected with the City's or the Authority's rights or obligations under this Site Lease, and (c) for all other lawful purposes.

SECTION 8. QUIET ENJOYMENT BY THE AUTHORITY.

The Authority shall at all times during the term of this Site Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the City, subject to the rights granted to the City under the Lease, and subject to the Authority's compliance with the terms and provisions hereof.

SECTION 9. ASSIGNMENTS AND SUBLEASES.

The Authority shall not assign, mortgage, hypothecate or otherwise encumber this Site Lease or any rights hereunder or the leasehold created hereby by trust agreement, indenture or deed of trust or otherwise or sublet the Leased Property without the written consent of the City, except as provided by the Lease and as security for the Bonds.

SECTION 10. TERMINATION.

The Authority agrees, upon the termination of this Site Lease, to quit and surrender the Leased Property in the same good order and condition as the same were in at the time of commencement of the term hereunder, reasonable wear and tear excepted, and the Authority and the City agree that any permanent improvements and structures existing upon the Leased Property at the time of the termination of this Site Lease shall remain thereon and title thereto shall be vested in the City.

SECTION 11. WAIVER OF PERSONAL LIABILITY.

All liabilities hereunder on the part of the Authority shall be solely liabilities of the Authority as a separate legal entity, and no member, officer or employee of the Authority shall at any time or under any circumstances be individually or personally liable hereunder for anything done or omitted to be done by the Authority hereunder.

SECTION 12. TAXES.

The Authority hereby agrees and covenants to pay, or to cause the City to pay, any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Leased Property.

SECTION 13. REPRESENTATIONS OF THE CITY.

The City represents and warrants to the Authority and the Trustee:

(a) the City has the full power and authority to enter into, to execute and to deliver this Site Lease, and to perform all of its duties and obligations hereunder and thereunder, and has duly authorized the execution and delivery of this Site Lease;

(b) except for Permitted Encumbrances, the Leased Property is not subject to any dedication, easement, right-of-way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the use of the Leased Property for governmental purposes as contemplated by the City;

(c) all taxes, assessments or impositions of any kind with respect to the Leased Property, except current taxes, have been paid in full; and (d) the Leased Property is necessary to the City in order for the City to perform its governmental functions.

SECTION 14. REPRESENTATIONS OF THE AUTHORITY.

The Authority represents and warrants to the City and the Trustee that the Authority has the full power and authority to enter into, to execute and to deliver this Site Lease, and to perform all of its duties and obligations hereunder, and has duly authorized the execution and delivery of this Site Lease.

SECTION 15. LAW GOVERNING.

This Site Lease shall be governed exclusively by the provisions hereof and by the laws of the State of California.

SECTION 16. NOTICES.

All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail return receipt requested, postage pre-paid, and, if to the City, addressed to the City Manager, City of Mount Shasta, 760 Mattie Road, Mount Shasta, California 93449 or if to the Authority, addressed to the Treasurer, Mount Shasta Public Financing Authority, 760 Mattie Road, Mount Shasta, California 93449, or to such other addresses as the respective parties may from time to time designate by notice in writing.

SECTION 17. VALIDITY AND SEVERABILITY.

If any one or more of the terms, provisions, covenants or conditions of this Site Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Site Lease shall be affected thereby, and each provision of this Site Lease shall be valid and enforceable to the fullest extent permitted by law.

If for any reason this Site Lease shall be held by a court of competent jurisdiction to be void, voidable, or unenforceable by the City or by the Authority, or if for any reason it is held by such a court that any of the covenants and conditions of the Authority hereunder is unenforceable for the full term hereof, then and in such event this Site Lease is and shall be deemed to be a lease from year to year and all of the rental and other terms, provisions and conditions of this Site Lease, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

SECTION 18. PURPOSE OF SITE LEASE.

The Authority covenants that during the term of this Site Lease, except to the extent that other uses may be permitted under the Lease, it will use or cause the use of, the Leased Property for the purposes described in the Lease and for such other purposes as may be incidental thereto.

SECTION 19. WAIVER OF DEFAULT.

Failure of the City to take advantage of any default on the part of the Authority shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this Site Lease be construed to waive or to lessen the right of the City to insist upon performance by the Authority of any term, covenant or condition hereof, or to exercise any rights given the City on account of such default. A waiver of a particular default shall not be deemed to be a waiver of the same or any subsequent default. The acceptance of rent hereunder shall not be, nor be construed to be, a waiver of any term, covenant or condition of this Site Lease.

SECTION 20. SECTION HEADINGS.

All section headings contained are for convenience of reference only and are not intended to define or limit the scope of any provision of this Site Lease.

SECTION 21. AMENDMENTS.

This Site Lease may be amended in writing as may be mutually agreed by the Authority and the City.

SECTION 22. EXECUTION; RECORDATION.

This Site Lease may be executed in any number of counterparts, each of which shall be deemed to an original, but all together shall constitute but one and the same Site Lease. It is also agreed that separate

counterparts of this Site Lease may separately be executed by the City and the Authority, all with the same force and effect as though the same counterpart had been executed by both the City and the Authority.

This Site Lease shall be recorded in the Land Records of Siskiyou County California.

[Signature page to follow on next page]

IN WITNESS WHEREOF, the Authority has caused this Site Lease to be executed in its corporate name by its duly authorized officers; and the City has caused this Site Lease to be executed in its name by its duly authorized officers and sealed with its corporate seal, as of the date first above written.

CITY OF MOUNT SHASTA, CALIFORNIA

By _____
Bruce D. Pope, City Manager

Attest:

By _____
Kathryn M. Wilson, City Clerk

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

By _____
Muriel Terrell, Treasurer

Attest:

By _____
Kathryn M. Wilson, Secretary

EXHIBIT A

DESCRIPTION OF THE LEASED PROPERTY

ALL THAT CERTAIN REAL PROPERTY (ALONG WITH ALL IMPROVEMENTS, FIXTURES AND FACILITIES AT ANY TIME SITUATED THEREON) SITUATED IN THE CITY OF MOUNT SHASTA, COUNTY OF SISKIYOU, STATE OF CALIFORNIA, AND ANY IMPROVEMENTS THERETO, DESCRIBED AS FOLLOWS:

AUTHORITY’S CERTIFICATE OF ACCEPTANCE OF SITE AND FACILITIES LEASE

This is to certify that the interest in real property conveyed by the Site and Facilities Lease, dated as of October 1, 2019, from the City of Mount Shasta, California, as lessor, to Mount Shasta Public Financing Authority (the “Authority”), as lessee, is hereby accepted by the undersigned officer on behalf of the Authority, pursuant to authority conferred by resolution of the Authority, and the Authority consents to recordation thereof by its duly authorized officer.

Dated: October __, 2019

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

By: _____
Muriel Terrell, Treasurer

ALL CAPACITY ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA

COUNTY OF SISKIYOU

On _____, before me, _____,
(Date) (Name and Title of officer)

personally appeared _____,
(Name of person signing)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of officer

(Seal)

ALL CAPACITY ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA

COUNTY OF SISKIYOU

On _____, before me, _____,
(Date) (Name and Title of officer)

personally appeared _____,
(Name of person signing)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of officer

(Seal)

LEASE AGREEMENT

Dated as of October 1, 2019

by and between the

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

and the

CITY OF MOUNT SHASTA

Relating to the

**§ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED**

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LEASE AGREEMENT

This Lease Agreement (the “Lease”), dated as of October 1, 2019, is made by and between the MOUNT SHASTA PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing pursuant to the laws of the State of California (the “Authority”), as lessor, and the CITY OF MOUNT SHASTA, a municipal corporation duly organized and existing under the laws of the State of California (the “City”), as lessee.

RECITALS:

WHEREAS, the City desires to finance the design, construction, installation, reimbursement and/or rehabilitation of a new corporate yard garage and solar facilities and related improvements (the “Project”); and

WHEREAS, in order to finance the Project, the City will lease to the Authority certain real property and improvements thereon commonly known as the City of Mount Shasta City Hall and Police Station (the “Leased Property”) pursuant to a Site and Facilities Lease, dated as of October 1, 2019, between the Authority and City (the “Site Lease”); and

WHEREAS, the Leased Property is more particularly described in Exhibit A hereto; and

WHEREAS, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide the funds necessary to finance the Project through the issuance by the Authority of its Bonds (as such term is defined herein), which are payable from the base rental payments (the “Base Rental Payments”) to be made by the City under this Lease; and

WHEREAS, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide for the issuance of the Bonds pursuant to an Indenture (the “Indenture”), dated as of October 1, 2019, between the Authority and U.S. Bank National Association, as trustee (the “Trustee”); and

WHEREAS, the Authority, pursuant to this Lease, will sublease the Leased Property to the City, in consideration for Base Rental Payments to be made by the City pursuant to this Lease, in accordance with the base rental schedule attached hereto as Exhibit B, that corresponds in amount to the principal and interest coming due with respect to the Bonds; and

WHEREAS, all rights to receive the Base Rental Payments have been assigned without recourse by the Authority to the Trustee pursuant to an Assignment Agreement, dated as of October 1, 2019, between the Authority and Trustee (the “Assignment Agreement”); and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Lease;

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

Terms used herein and not otherwise defined herein but defined in the Indenture shall have the meanings ascribed to them in the Indenture. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Lease, have the meanings herein specified, the following definitions to be equally applicable to both the singular and plural forms of any of the terms herein defined:

“*Additional Rental Payments*” means Additional Rental Payments due under Section 3(b) hereof.

“*Base Rental Payments*” means Base Rental Payments and any additional base rental payments made hereunder to support Additional Bonds issued in accordance with the Indenture.

“*Expiration Date*” means December 1, 2047, being the final scheduled maturity date of the Bonds, unless extended or sooner terminated as provided in Section 2 hereof.

“*Facilities*” means all improvements, fixtures and facilities at any time situated on the Site.

“*Indenture*” means the Indenture dated as of October 1, 2019, by and between the Trustee and the Authority.

“*Interest Component*” means interest component of any Base Rental Payments as set forth in Exhibit B hereto.

“*Lease*” means this Lease Agreement.

“*Leased Property*” means, collectively, the Site and Facilities, as more fully described in Exhibit A hereto, as such Exhibit A may be revised and amended from time to time pursuant to the terms of the Indenture and of this Lease.

“*Lease Payment Date*” means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month immediately preceding such Interest Payment Date.

“*Net Proceeds*” means any insurance or condemnation proceeds, paid with respect to the Leased Property remaining after payment therefrom of all expenses in the collection thereof.

“*Permitted Encumbrances*” means, with respect to the Leased Property, as of any particular time, (i) to the extent in effect on the Closing Date, the right, title and interest of the City to the Leased Property and the existing interests of the Authority to the Leased Property as lessee of the City, and the existing interests of the City in the Leased Property as lessee of the Authority; (ii) the Site Lease; (iii) this Lease, (iv) the Indenture and the Trustee’s and the Authority’s interests in the Leased Property, (v) liens for taxes and assessments not then delinquent, (vi) utility, access and other easements and rights of way, restrictions and exceptions that a City Representative certifies will not interfere with or impair the use intended to be made of the Leased Property; (vii) any additions and improvements to the Leased Property as permitted in this Lease; (viii) any

sublease or use permitted by this Lease, (ix) covenants, conditions or restrictions or liens of record relating to the Leased Property and existing on the Closing Date; (x) such minor defects, irregularities, encumbrances and clouds on title as normally exist with respect to property similar in character to the Leased Property and as do not materially impair the use intended to be made of property affected thereby, and (xi) any encumbrances listed in the preliminary title report issued pursuant to Section 10 hereof.

“*Principal Component*” means the principal component of any Base Rental Payments as set forth in Exhibit B hereto.

“*Project*” means acquisition, construction, installation, renovation, furnishing and improvement of a new corporate yard garage and solar facilities and related improvements with proceeds of the Bonds to the extent permitted by California law and not adversely affecting the tax-exempt status of the Bonds.

“*Rental Period*” means each period during the Term of this Lease commencing on and including the day immediately following an Interest Payment Date and extending to and including the next succeeding Interest Payment Date.

“*Site*” means the real property described in Exhibit A hereto.

SECTION 2. TERM

The Authority hereby leases to the City and the City hereby leases from the Authority, on the terms and conditions hereinafter set forth, the Leased Property.

The term of this Lease shall commence on October __, 2019, or the date this Lease is recorded, whichever is later, and shall expire on the later of (i) the Expiration Date; (ii) the date the last Base Rental Payment is made under the provisions hereof; or (iii) the date of discharge of all of the Bonds and Additional Bonds pursuant to Section 9.03 of the Indenture. Notwithstanding the foregoing, the term of this Lease shall automatically be extended for a period of ten (10) years, if, on the Expiration Date, the Bonds and any Additional Bonds have not been fully discharged, and shall terminate on the date when the Bonds and any Additional Bonds have been fully discharged.

SECTION 3. RENTAL

Subject to the provisions of Sections 12 and 17 hereof, the City agrees to pay to the Authority, its successors or assigns, as rental for the use and possession of the Leased Property, the following amounts at the following times:

(a) Base Rental Payments; Additional Base Rental Payments. The City agrees to pay to the Trustee, as assignee of the Authority, the Base Rental Payments (denominated into Principal Components and Interest Components) in accordance with the Base Rental Payment Schedule attached hereto as Exhibit B, in the respective amounts specified in Exhibit B attached hereto and by this reference incorporated herein, to be due and payable on the Interest Payment Dates immediately following each of the respective Lease Payment Dates, and to be deposited by the City with the Trustee on each of the Lease Payment Dates. Any amount held in the Lease Revenue Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Principal Components in part but not in whole pursuant to Section 12 hereof and other than

amounts required for payment of past due Principal Components or Interest Components represented by any Bonds not presented for payment) shall be credited towards the Base Rental Payment then required to be paid hereunder; and no Base Rental Payment need be deposited with the Trustee on any Lease Payment Date if the amounts then held in the Lease Revenue Fund are at least equal to the Base Rental Payment then required to be deposited with the Trustee. The Base Rental Payments payable in any Rental Period shall be for the use of the Leased Property during such Rental Period.

The obligation of the City to pay the Base Rental Payments with respect to the Bonds shall rank *pari passu* with the obligation of the City to pay base rental payments with respect to any Additional Bonds. Upon and after the issuance of any Additional Bonds secured by base rental payments with respect to the Leased Property, the City shall pay the Base Rental Payments with respect to such Additional Bonds as provided in the Supplemental Indenture for such Additional Bonds, in accordance with the additional Base Rental Payment schedule which shall be attached hereto as an additional exhibit prior to the delivery of such Additional Bonds, as adjusted for any prepayments.

(b) Additional Rental Payments. The City shall also pay, as “Additional Rental Payments” hereunder, in addition to the Base Rental Payments and any base rental payments hereunder made with respect to Additional Bonds, to the Trustee, as assignee of the Authority, as hereinafter provided, such amounts in each year as shall be required for the payment of all costs and expenses (not otherwise paid for or provided for out of the proceeds of sale of the Bonds) incurred by the Authority or the Trustee in connection with the execution, performance or enforcement of this Lease or the assignment hereof, the Indenture, or the Authority’s or the Trustee’s respective interests in the Leased Property, including, but not limited to, all fees, costs and expenses, all administrative costs of the Authority relating to the Leased Property (including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture), fees of auditors, accountants, attorneys or engineers, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the Bonds or of the Indenture.

Such Additional Rental shall be billed to the City by the Authority or the Trustee from time to time. Amounts so billed shall be paid by the City within thirty (30) days after receipt of the bill by the City.

(c) Fair Rental Value. Payments of Base Rental Payments and Additional Rental Payments for each rental payment period shall constitute the total rental for such rental payment period, and shall be paid by the City in each rental payment period for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property during each such period for which said rental is to be paid. The City represents and covenants that the useful life of the Leased Property is not shorter than the final maturity of the Bonds. The parties to this Lease specifically acknowledge that the annual fair rental value of the Leased Property is in excess of the maximum annual Base Rental Payments. In making such determination, consideration has been given to other obligations of the parties under this Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public. The determination of fair rental value of the Leased Property pursuant to this paragraph shall not be deemed to be controlling in connection with a determination of fair value of the Leased Property by the parties hereto for any other purpose.

(d) Payment of Base Rental. Each installment of Base Rental Payments payable hereunder shall be paid in lawful money of the United States of America to the order of the Trustee at the corporate trust office of the Trustee in Costa Mesa, California, or such other place as the Trustee shall designate. Notwithstanding any dispute between the City and the Authority, the City shall make all Base Rental Payments when due, without deduction or offset of any kind, and shall not withhold any Base Rental Payments pending the final resolution of any such dispute. In the event of a determination that the City was not liable for said Base Rental Payments or any portion thereof, said Base Rental Payments or excess of payments, as the case may be, shall, at the option of the City, be credited against subsequent Base Rental Payments due hereunder or be refunded at the time of such determination.

(e) Increases in Aggregate Base Rental Payments. The City covenants that it shall not permit an increase in the aggregate Base Rental Payments or permit additional base rental payments with respect to Additional Bonds without first obtaining an opinion of Bond Counsel to the effect that the incurring of such increased Base Rental Payments will not (i) impair the validity and enforceability of this Lease and (ii) in and of itself impair the exclusion of interest on the Bonds and, to the extent applicable, any Additional Bonds, from the gross income of the owners thereof for federal income tax purposes.

(f) Covenant to Budget and Appropriate. The City covenants to take such action as may be necessary to include all Base Rental Payments due hereunder in its annual budget and to make the necessary annual appropriations for all such Base Rental Payments, subject only to abatement as provided in Section 17 hereof. The City will furnish to the Authority annually, on or before September 1, a certificate stating that it has complied with the covenant set forth in this paragraph. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this Lease agreed to be carried out and performed by the City. The obligation of the City to make Base Rental Payments or Additional Rental Payments does not constitute an obligation of the City 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. Neither the Bonds and any Additional Bonds nor the obligation of the City to make Base Rental Payments or Additional Rental Payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

SECTION 4. ACQUISITION, CONSTRUCTION AND INSTALLATION OF THE PROJECT

The Authority hereby appoints the City as its agent to carry out all phases of the design, construction, installation and acquisition of the Project. The City hereby accepts such appointment and as such agent, hereby assumes all duties, right, responsibilities and liabilities of the Authority regarding the design, construction, installation and acquisition of the Project. The City, as agent of the Authority, will, in all respects, supervise and provide for, or cause to be supervised and provided for, the design, construction, installation and acquisition of the Project.

In connection with the design, construction, installation and acquisition of the Project, payment of the Project Costs shall be made from the moneys deposited with the Trustee in the Project Fund, which shall be disbursed for such purposes in accordance and upon compliance with Article III of the Indenture. Other than

such moneys deposited in the Project Fund, and investment earnings thereon, the Authority shall have no obligation to provide moneys to pay any portion of the Project Costs.

The City represents and warrants that it holds funds in various segregated accounts, including the moneys deposited in the Project Fund on the Delivery Date, and investment earnings thereon, that the City expects will be sufficient to pay the Project Costs in full. The City covenants that, until the Project is completed, it will not use any portion of the amount on deposit in such segregated accounts for any purpose other than to pay Project Costs.

SECTION 5. MAINTENANCE, UTILITIES, TAXES AND ASSESSMENTS

During such time as the City or any assignee or sublessee thereof is in possession of the Leased Property, all maintenance and repair, ordinary or extraordinary, of the Leased Property shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of (a) all utility services supplied to the Leased Property, (b) the cost of operation of the Leased Property, and (c) the costs of maintenance of and repair to the Leased Property resulting from ordinary wear and tear or want of care on the part of the City. The City shall at the City's sole cost and expense keep and maintain the Leased Property clean and in a safe and good condition and repair. The Authority shall have no obligation to alter, remodel, improve, repair, decorate, or paint the Leased Property or any part thereof, and the parties hereto affirm that the Authority has made no representations or warranties to the City respecting the condition of the Leased Property.

The City shall comply with all statutes, ordinances, regulations, and other requirements of all governmental entities that pertain to the occupancy or use of the Leased Property. The Authority has no responsibility or obligation whatsoever to construct any improvements modification or alteration to the Leased Property.

The City waives the right to make repairs at the Authority's expense under Subsection 1 of Section 1932, Sections 1941 and 1942 of the California Civil Code, or any other such law, statute, or ordinance now or hereafter in effect.

The parties hereto contemplate that the Leased Property will be used for public purposes by the City and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the Authority or the City of the Leased Property is found to be subject to taxation in any form, the City will pay during the term hereof, as the same respectively became due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the City in substitution for, as a renewal or replacement of, or a modification, improvement or addition to the Leased Property; provided, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are accrued during such time as this Lease is in effect.

SECTION 6. CHANGES TO THE LEASED PROPERTY

The City shall have the right during the term of this Lease to acquire and construct improvements or to attach fixtures, structures or signs to the Leased Property if such improvements, fixtures, structures or

signs are necessary or beneficial for the use of the Leased Property by the City; provided, however, that no such acquisition or construction shall result in a material reduction in the value of the Leased Property, reduce the fair rental value thereof or substantially alter the nature of the Leased Property.

Upon termination of this Lease, the City may remove any fixture, structure or sign added by the City, but such removal shall be accomplished so as to leave the Leased Property, except for ordinary wear and tear and damage by casualty, in substantially the same condition as it was in before the fixture, structure or sign was attached.

SECTION 7. SUBSTITUTION OR RELEASE OF LEASED PROPERTY

The City shall have, so long as this Lease is in effect, and is hereby granted, the option at any time and from time to time, to substitute other real property (the "Substitute Leased Property") for any portion of the Leased Property (the "Former Leased Property") or release any identifiable real property and/or improvements currently constituting the Leased Property (in such case, Substitute Leased Property shall mean the Former Leased Property less any portion released pursuant to this Section); provided that the City shall satisfy all of the following requirements, which are hereby declared to be conditions precedent to such substitution and/or release:

- (a) No Event of Default shall have occurred and be continuing;
- (b) The City shall file with the Authority and the Trustee, and cause to be recorded in the office of the Siskiyou County Recorder, sufficient memorialization of amendments to this Lease and the Site Lease which replaces Exhibit A hereto and Exhibit A to the Site Lease with a description of such Substitute Leased Property which deletes therefrom the description of the Former Leased Property;
- (c) The City shall obtain a California Land Title Association ("CLTA") or American Land Title Association (ALTA) policy of title insurance insuring the City's fee or leasehold estate in such Substitute Leased Property, the City's leasehold estate hereunder, and the Authority's leasehold estate under the Site Lease in such Substitute Leased Property, subject only to Permitted Encumbrances, in an amount not less than the aggregate principal amount of the Outstanding Bonds; provided, however, that this requirement shall not apply to Substitute Leased Property that consists only of Former Leased Property less any released portion;
- (d) The City shall certify in writing to the Authority and to the Trustee that such Substitute Property serves an essential governmental function and constitutes property which the City is permitted to lease under the laws of the State of California;
- (e) The substitution of the Substitute Leased Property shall not cause the City to violate any of its covenants, representations and warranties made herein;
- (f) The City shall file with the Authority and the Trustee a written certificate of the City or other evidence which establishes that the annual fair rental value of the Substitute Leased Property after substitution or release will be at least equal to 100% of the maximum amount of the Base Rental Payments becoming due in the then current fiscal year or in any subsequent fiscal year, and that the useful economic life of the Substitute Leased Property shall be at least equal to the maximum remaining term of this Lease; and

(g) The City shall furnish to the Trustee an opinion of Bond Counsel addressed to the Trustee, the City and the Authority to the effect that the substitution or release is permitted under this Lease and will not in and of itself (i) impair the validity and enforceability of this Lease or (ii) impair the exclusion of interest on the Bonds, and, if applicable, any Additional Bonds, from the gross income of the owners thereof for federal income tax purposes.

Upon the satisfaction of all such conditions precedent, and upon the City delivering to the Authority and the Trustee a written certification of the City certifying that the conditions set forth in subsections (a), (c) and (e) of this Section have been satisfied, the Term of this Lease shall thereupon end as to the Former Leased Property and shall thereupon commence as to the Substitute Leased Property, and all references to the Former Leased Property shall apply with full force and effect to the Substitute Leased Property. The City shall not be entitled to any reduction, diminution, extension or other modification of the Base Rental Payments whatsoever as a result of such substitution or release hereunder. The City and the Authority shall execute, deliver and cause to be recorded all documents required to properly discharge this Lease lien of record against the Former Leased Property.

SECTION 8. TITLE INSURANCE

The City shall provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Leased Property, in the aggregate amount of not less than the aggregate principal amount of the Bonds. Said policy or policies shall insure (a) the fee interest of the City in the Leased Property, (b) the Authority's ground leasehold estate in the Leased Property under the Site Lease, and (c) the City's leasehold estate hereunder in the Leased Property, subject only to Permitted Encumbrances; provided, however, that one or more of said estates may be insured through an endorsement to such policy or policies. All Net Proceeds received under said policy or policies shall be applied as provided in Section 10 hereof. So long as any of the Bonds remain Outstanding, each policy of title insurance obtained pursuant hereto or required hereby shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Owners.

SECTION 9. INSURANCE

(a) Liability Insurance. The City shall procure (or cause to be procured) and maintain (or cause to be maintained), throughout the term of this Lease, reasonable and customary general liability insurance, naming as additional insured the Authority, the Trustee, and their directors, officers, agents and employees, insuring against all direct or contingent loss or liability for damages for bodily injury, death or property damage occasioned by reason of the use or operation of the Leased Property. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the City.

(b) Workers Compensation Insurance. The City shall at all times comply with the workers' compensation insurance laws of the State of California to the extent applicable to the City.

(c) Fire and Extended Coverage Insurance. The City shall procure (or cause to be procured) and maintain (or cause to be maintained), throughout the term of this Lease, insurance against loss or damage to any part of the Leased Property against all perils included within the classification of fire, lightning, and all other risks covered by an extended coverage endorsement (excluding earthquake) to the full insurable value of the Property, subject to a \$100,000 loss deductible provision. Said fire and extended coverage

insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, sprinkler damage, boiler explosion and such other hazards as are normally covered by such insurance. Such insurance, shall be in an amount equal to 100% of the replacement cost of the improvements on the Leased Property. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the City, provided that coverage pursuant to this subsection shall apply exclusively to the Leased Property, and payment of insurance proceeds shall not be contingent upon the degree of damage sustained at other facilities owned or leased by the City.

(d) Rental Interruption Insurance. The City shall procure (or cause to be procured) and maintain (or cause to be maintained), throughout the term of this Lease, rental interruption insurance to cover loss, total or partial, of the use of any part of the Leased Property as the result of any of the hazards covered in the insurance required by subsection (c) of this Section and the resulting loss of rental income to the Trustee, as assignee of the Authority, in an amount sufficient to pay the maximum remaining principal and interest portions of Base Rental due under this Lease during a period equal to the greater of (i) two times Maximum Annual Debt Service, and (ii) the period certified by the City to be reasonably required to rebuild or reconstruct the Leased Property in the event of damage or destruction to the Leased Property. The Net Proceeds of such insurance shall be paid to the Trustee for deposit in the Lease Revenue Fund and shall be credited towards the payment of Base Rental in the order in which such Base Rental Payments become due and payable. The City covenants and agrees to use its best efforts to provide sufficient construction funds and to make all required payments hereunder, in excess of the available rental interruption insurance, if necessary, in order to ensure completion of the reconstruction, repair, restoration, modification or improvement of the Leased Property.

(e) Self-Insurance. Except for the insurance required by subsection (d) of this Section (rental interruption insurance), for which the City may not provide self-insurance, as an alternative to providing the insurance required by this Section the City may provide a self-insurance method or plan of protection (but only from a special fund of the City or other source for which the General Fund of the City is not in any fashion obligated nor to which the City is otherwise obligated to make payments), covering one or all of the insurance coverage's required to be provided by subsections (a), (b) and (c) of this Section, so long as such self-insurance method or plan of protection shall afford reasonable protection to the Authority and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by counties in the State other than the City.

(f) Net Proceeds of Insurance; Form of Policies. The policy of insurance required by subsections (c) and (d) of this Section shall provide that all proceeds thereunder shall be payable to the Trustee pursuant to a lender's loss payable endorsement, and shall name the City, the Authority and the Trustee as insureds. The Net Proceeds of policies of insurance under subsection (c) of this Section shall be applied as provided in Section 10 hereof. All policies of insurance required by this Lease and any statements of self-insurance shall be in form satisfactory to the Authority. The City shall pay or cause to be paid when due the premiums for all insurance policies required by this Lease and shall promptly furnish or cause to be furnished evidence of such payments to the Authority and the Trustee. All such policies shall provide that the Authority and the Trustee shall be given thirty (30) days' notice of each expiration, and any intended cancellation thereof or reduction of the coverage provided thereby. The City shall deliver to the Trustee on or before the Closing Date and each anniversary of the Closing Date a certificate that all insurance required under this Lease is in full force and effect. In the event that the City obtains insurance through a pooled insurance program of governmental entities, an annual statement or memorandum of coverage delivered to the Authority and the Trustee will satisfy the requirements of this subsection. The Trustee and the Authority shall not be responsible for the sufficiency of any insurance herein required or payment of premium and shall be fully

protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

(g) Advances. If the City shall fail to perform in any of its obligations under this Section, then the Authority may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money on behalf of the City, and the City shall be obligated to repay all such advances as soon as possible.

(h) Waivers of Subrogation. Each of the parties hereby waives any and all rights to recovery against the other or against any other tenant or occupant of the Leased Property, or against the officers, employees, agents, representatives, customers, and business visitors of such other party or of such other tenant or occupant of the Leased Property, for loss or damage to such waiving party or its property or the property of others under its control, arising from any cause insured against under the standard form of property damage insurance policy with all permissible extensions and endorsements covering extended perils or under any other policy of insurance carried by such waiving party in lieu thereof, to the extent such policies then in force permit such waiver.

SECTION 10. DAMAGE, DESTRUCTION AND CONDEMNATION; APPLICATION OF NET PROCEEDS

If prior to the termination of the term hereof (a) the Leased Property is destroyed (in whole or in part) or is damaged by fire or other casualty, or (b) title to, or the temporary use of, any portion of the Leased Property or the estate of the Authority or the City in the Leased Property or any portion shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the City and the Authority shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Leased Property or portion thereof, in accordance with the provisions of this Section 10. If Net Proceeds are insufficient to repair or replace the Leased Property or portion thereof, the City shall, to the extent permitted by law, use its best efforts to fund any deficiency from any legally available funds.

If there is an abatement of rental payments pursuant to Section 17 hereof as a result of such casualty or event, and the City elects pursuant to Section 12(a) hereof to apply such insurance proceeds and such other sums as are deposited by the City pursuant to such Section to the prepayment of Base Rental Payments rather than replacing or repairing the destroyed or damaged portion of the Leased Property, then this Lease shall terminate with respect to the destroyed or damaged portion of the Leased Property as of the later of the date of such election by the City or the date the amount required by Section 12(a) hereof is received by the Trustee.

The provisions of Section 1932, Subdivision 2, and Section 1933, Subdivision 4, of the California Civil Code, including any amendments thereto and any other law which may hereinafter be in force during the term of this Lease which authorizes the termination of this Lease upon the partial or complete destruction of the Leased Property, are hereby waived by the City.

The City hereby covenants and agrees, to the extent it may lawfully do so, that so long as any of the Bonds and any Additional Bonds remain outstanding and unpaid, the City will not exercise the power of condemnation with respect to the Leased Property. The City further covenants and agrees, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the City

should fail or refuse to abide by such covenant and condemns the Leased Property, the value of the Leased Property shall not be less than the greater of (i) if Outstanding Bonds are then subject to redemption, the principal and interest due on the Outstanding Bonds through the date of their redemption, or (ii) if such Outstanding Bonds are not then subject to redemption, the amount necessary to defease such Outstanding Bonds to the first available redemption date in accordance with the Indenture.

The City shall deposit any proceeds received from insurance and condemnation awards with respect to the destruction or partial destruction of Leased Property with the Trustee for deposit into the: (a) Insurance and Condemnation Fund if the City elects to repair the Leased Property, or (b) the Redemption Fund if the City elects to redeem the Outstanding Bonds. The City shall have 45 days from the date of any such destruction or partial destruction to determine whether to repair the Leased Property or use insurance and condemnation award proceeds received to redeem such bonds. To the extent that the City determines not to repair the Leased Property and cannot use insurance and condemnation award proceeds to redeem such bonds, the City shall and hereby covenants to substitute property for such Leased Property of equivalent or greater value in accordance with the provisions of Section 7 hereof. If the City determines to repair the Leased Property, disbursements by the Trustee shall only be made upon presentation of a requisition in a form substantially similar to Exhibit C of the Indenture. If the City determines to cause the redemption of less than the full amount of the Outstanding Bonds, such redemption shall only be made to the extent the remaining fair rental value of the Leased Property is not less than the remaining Base Rental Payments supporting debt service on the Outstanding Bonds.

SECTION 11. DEFAULT

(a) Each of the following events constitutes an Event of Default hereunder:

(1) Failure by the City to pay any Base Rental Payment or other payment (including Additional Rental Payments) required to be paid hereunder at the time specified herein.

(2) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder, other than as referred to in the preceding subsection (1), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority. However, if the City notifies the Authority that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 30-day period, the failure will not constitute an Event of Default if the City commences to cure the failure within such 30-day period and thereafter diligently and in good faith cures such failure in a reasonable period of time; provided, that such cure period shall not extend beyond 60 days.

(3) 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.

The Authority expressly waives the right to receive any amount from the City pursuant to Section 1951.2(a)(3) of the California Civil Code.

(b) Whenever any Event of Default has happened and is continuing, the Authority may exercise any and all remedies available under law or granted under this Lease. Notwithstanding anything herein to the contrary, there shall be no right under any circumstances to accelerate the Base Rental Payments or otherwise declare any Base Rental Payments not then in default to be immediately due and payable. Each and every covenant hereof to be kept and performed by the City is expressly made a condition and upon the breach thereof the Authority may exercise any and all rights granted hereunder; provided, that no termination of this Lease will be effected either by operation of law or acts of the parties hereto, except only in the manner herein expressly provided. Upon the occurrence and during the continuance of any Event of Default, the Authority may exercise each and every one of the following remedies:

(1) *Enforcement of Payments Without Termination.* If the Authority does not elect to terminate this Lease in the manner hereinafter provided for in subsection (b)(2) of this Section, the City agrees to remain liable for the payment of all Base Rental Payments and the performance of all conditions herein contained, and the Authority may take whatever action at law or in equity may appear necessary or desirable, to collect each Base Rental Payment as it becomes due hereunder. The City will reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Property or portion thereof, or, if the Authority is unable to re-lease the Leased Property, then for the full amount of all Base Rental Payments to the end of the term of this Lease, but said Base Rental Payments and/or deficiency will be payable only at the same time and in the same manner as hereinabove provided for the payment of Base Rental Payments hereunder, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Property or portion thereof or the exercise of any other remedy by the Authority.

The City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City and shall allow the Trustee to enter upon and re-lease the Leased Property upon the occurrence and continuation of an Event of Default and to remove all personal property whatsoever situated upon the Leased Property, to place such property in storage or other suitable place in the State of California for the account of and at the expense of the City, and the City hereby agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Property and the removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Lease constitute full and sufficient notice of the right of the Authority to re-lease the Leased Property in the event of such re-entry without effecting a surrender of this Lease, and further agrees that no acts of the Authority in effecting such re-leasing constitute a surrender or termination of this Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate this Lease will vest in the Authority to be effected in the sole and exclusive manner hereinafter provided for in subsection (2) of this Section. The City agrees to surrender and quit possession of the Leased Property upon demand of the Authority for the purpose of enabling the Leased Property to be re-let under this paragraph. Any rental obtained by the Authority in excess of the unpaid Base Rental Payments will be applied as a credit against future Base Rental Payments.

(2) *Termination of Lease.* If an Event of Default occurs and is continuing hereunder, the Authority at its option may terminate this Lease and re-lease all or any portion of the Leased Property. If the Authority terminates this Lease at its option and in the manner hereinafter provided on account

of default by the City (and notwithstanding any re-entry upon the Leased Property by the Authority in any manner whatsoever or the re-leasing of the Leased Property), the City nevertheless agrees to pay to the Authority all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is herein provided in the case of payment of Base Rental Payments. Any surplus received by the Authority from such re-leasing will be applied as a credit against future Base Rental Payments. Neither notice to pay rent or to deliver up possession of the premises given under law nor any proceeding in unlawful detainer taken by the Authority will of itself operate to terminate this Lease, and no termination of this Lease on account of default by the City will be or become effective by operation of law, or otherwise, unless and until the Authority has given written notice to the City of the election on the part of the Authority to terminate this Lease. The City agrees that no surrender of the Leased Property, or of the remainder of the term hereof or any termination of this Lease will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

(3) *Proceedings at Law or In Equity.* If an Event of Default occurs and continues hereunder, the Authority may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce any other of its rights hereunder.

(4) *Remedies under the Site Lease.* If an Event of Default occurs and continues hereunder, the Authority may exercise its rights under the Site Lease.

SECTION 12. PREPAYMENT AND CREDITS

(a) *Prepayment from Net Proceeds.*

(1) The City may prepay, from Net Proceeds of insurance or a condemnation award received by it pursuant to Section 10, the Principal Component of Base Rental Payments then unpaid (and corresponding Interest Component), in whole or in part on any date, pursuant to Section 10 hereof, at a prepayment price equal to the sum of the Principal Component prepaid plus accrued interest thereon to the date of prepayment.

(2) Prepayments made pursuant to this subsection (a) shall be allocated pro rata among the Principal Components of Base Rental Payments relating to the Bonds and any Additional Bonds.

(b) *Optional Prepayment.* The City may at its option prepay from any source of available moneys for redemption of Bonds on any Business Day pursuant to Section 2.03(b) of the Indenture, all or any part (in an integral multiple of \$5,000) of the Principal Component of Base Rental Payments then unpaid, so that the aggregate annual amounts of principal component of Base Rental which shall be payable after such prepayment date shall each be an integral multiple of \$5,000, at a prepayment price equal to the sum of the principal component prepaid plus interest accrued with respect thereto to the date of prepayment, without premium.

Before making any prepayment pursuant to this Section, the City shall give written notice to the Authority and the Trustee specifying the date on which the prepayment will be made, which date shall be not less than forty-five (45) days from the date such notice is given unless the Trustee agrees to a shorter period.

The Authority and the City hereby agree that any prepayment in part under this Section and any redemption of Bonds by the Authority pursuant to Section 2.03(b) of the Indenture shall be credited towards the City's obligations hereunder at the option of the City in any manner determined in writing delivered to the Trustee by the City. A prepayment made pursuant to this Section shall not cause a defeasance of any Bonds unless the requirements of Section 9.03 of the Indenture are satisfied.

In the event of prepayment in full of the Principal Component of all Base Rental Payments, such that this Lease shall be terminated by its terms as provided in Section 2, all amounts then on deposit under the Indenture which are to be credited to the City's obligations to make Base Rental Payments shall be credited towards the amounts then required to be so prepaid. In the event of the prepayment of some but not all of the Principal Components of the Base Rental Payments, the City shall replace the applicable Base Rental Schedule with a revised Base Rental Payment Schedule reflecting such prepayment of the Principal Components of such Base Rental Payments.

SECTION 13. MECHANICS' LIENS

In the event the City shall at any time during the term of this Lease cause any improvements or other work to be done or performed or materials to be supplied, in or upon the Leased Property, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Leased Property and which may be secured by any mechanics', materialmen's or other liens against the Leased Property or the Authority's interest therein, and will cause any such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment.

SECTION 14. QUIET ENJOYMENT

The parties hereto mutually covenant that the City, so long as it keeps and performs the covenants and agreements herein contained, shall at all times during the term of this Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Authority.

SECTION 15. INDEMNIFICATION

The City shall, to the full extent then permitted by law, indemnify, defend, protect and hold harmless the Authority and its members, officers and employees and the Trustee from and against any and all liabilities, obligations, losses, claims and damages whatsoever regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of the entering into of this Lease and the Indenture, the payment of the costs of acquiring the Leased Property or any accident in connection with the operation, use, condition or possession of the Leased Property or any portion thereof resulting in damage to property or injury to or death to any person, but excluding any loss arising out of the intentional malfeasance or gross negligence of the Trustee or its officers, the indemnification arising under this section shall continue in full force and effect notwithstanding the full payment of all rent obligations hereunder or the termination hereof for any reason, The City agrees

not to withhold or abate any portion of the payments required pursuant hereto by reason of any defects, malfunctions breakdowns or infirmities of the Leased Property. The Authority and the City mutually agree to promptly give notice to each other of any claim or liability hereby indemnified against following either's learning thereof.

SECTION 16. ASSIGNMENT

The parties understand that this Lease and the rights of the Authority hereunder, with certain exceptions, will be assigned to the Trustee as provided in the Indenture and the Assignment Agreement, to which assignment the City hereby consents.

Neither this Lease nor any interest of the City hereunder shall be mortgaged, pledged, assigned or transferred by the City by voluntary act or by operation of law or otherwise; provided, subject to the provisions of Section 18 hereof, that the Leased Property may be subleased in whole or in part by the City, but only subject to the following conditions, which are hereby made conditions precedent to any such sublease:

(a) This Lease and the obligation of the City to make all Base Rental Payments and Additional Rental Payments hereunder shall remain the primary obligation of the City;

(b) The City shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;

(c) No such sublease by the City shall cause the Leased Property to be used for a primary purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California, as evidenced by a Certificate of the City that is delivered to the Trustee;

(d) Any sublease of the Leased Property by the City shall explicitly provide that such sublease is subject to all rights of the Authority under this Lease; and

(e) The City shall have filed or caused to be filed with the Authority and the Trustee an opinion of Bond Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds and any Additional Bonds (that are intended to be tax-exempt) to be included in gross income for federal income tax purposes.

SECTION 17. ABATEMENT OF RENTAL

The obligation of the City to pay Base Rental Payments and Additional Rental Payments shall be abated during any period in which by reason of any damage, destruction or condemnation there is substantial interference with the use and occupancy of the Leased Property or any portion thereof by the City. Such abatement shall continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Leased Property, and ending with the substantial completion of the work of repair or replacement of the Leased Property, or the portion thereof so damaged or destroyed, and the term of this Lease shall be extended as provided in Section 2 hereof.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of base rental payments in any of the funds and accounts established under the Indenture, such base rental payments shall not be abated but shall be payable by the City as a special obligation payable solely from such funds and accounts.

SECTION 18. COVENANTS OF THE CITY REGARDING TAX EXEMPT STATUS OF THE BONDS

(a) Special Definitions. When used in this Section, the following terms have the following meanings:

“*Computation Date*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“*Gross Proceeds*” means any proceeds as defined in section 1.148-1(b) of the Tax Regulations, and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of the Bonds.

“*Investment*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“*Nongovernmental Output Property*” means any property (or interest therein) that prior to its acquisition by the City was used by (or manufactured for or to the order of or held for the use by) any Nongovernmental Person (whether actually so used or not) in connection with any electric and gas generation, transmission, distribution, or related facilities.

“*Nongovernmental Person*” refers to any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, or an agency or instrumentality acting solely on behalf thereof.

“*Nonpurpose Investment*” means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and that is not acquired to carry out the governmental purposes of the Bonds.

“*Original Facilities*” means any property the acquisition, construction or improvement of which is financed directly or indirectly with Gross Proceeds of the Bonds.

“*Rebate Amount*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“*Tax Regulations*” means the United States Treasury Regulations promulgated pursuant to sections 103 and 141 through 150 of the Code, or under the provisions of any predecessor statute corresponding thereto.

“*Yield*” of (1) any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and (2) the Bonds has the meaning set forth in section 1.148-4 of the Tax Regulations.

(b) Not to Cause Interest to Fail to Be Excluded from Gross Income. The City covenants that it will not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any of the Bonds to

fail to be excluded pursuant to section 103(a) of the Code from the gross income, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the City receives a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the City will comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the City covenants that at all times prior to the payment and cancellation of the last Bond to be paid and canceled:

(1) it will use its best efforts to ensure that the City (or another entity other than a Nongovernmental Entity) exclusively owns, operates and possesses all of the facilities that are to be financed directly or indirectly with Gross Proceeds of the Bonds, and that it will not use or permit the use of such Gross Proceeds (including under any contractual arrangement with terms different than those applicable to the general public) or any of the Project in any activity carried on by any Nongovernmental Person, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity in respect of the use by any Nongovernmental Person of Gross Proceeds of the Bonds, other than interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

Without limiting the foregoing, except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the City will not: (i) permit any Nongovernmental Person to hold any ownership, proprietary or possessory interest in any of the Original Facilities; (ii) contract with any Nongovernmental Person for the provision of operating or other services with respect to any function of an Original Facility (unless either (A) such arrangement requires no payment of fees to such Nongovernmental Person other than as direct reimbursement of third party costs or reasonable administrative overhead, or (B) such arrangement conforms to administrative guidance of the Internal Revenue Service in order to assure that such arrangement does not create a private business use relationship of the Nongovernmental Person to the Gross Proceeds of the Bonds or to any Original Facility); or (iii) contract with any Nongovernmental Person for the sale of output or capacity of an Original Facility that is an output facility, unless such contract is described either in section 1.141-7(c) of the Treasury Regulations (describing certain types of output contracts that do not have the effect of transferring the benefits of owning the property and the burdens of paying debt service on the financing of the property) or in section 1.141-7(f) of the Treasury Regulations (describing certain types of output contracts that while having the effect of transferring such benefits and burdens but nevertheless may be disregarded in evaluating private business use).

(d) No Private Loan. Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the City has not used, and will not use, Gross Proceeds of any Bond to make or finance loans to any Nongovernmental Person. For purposes of the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (2) capacity in or

service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits of such Gross Proceeds, or burdens and benefits of ownership of any property acquired, constructed or improved with such Gross Proceeds, are otherwise transferred in a transaction that is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except as would not cause any Bond to become an “arbitrage bond” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, the City shall not at any time prior to the final maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment acquired with Gross Proceeds, whether then held or previously disposed of, would materially exceed the Yield of such Bond within the meaning of said section 148.

(f) Not Federally Guaranteed. The City covenants that, except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, it will not take or omit to take any action that would cause any Bond to be “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

(g) Information Report. The City covenants that it will timely file or cause to be filed any information required by section 149(e) of the Code with respect to the Bonds with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Tax Regulations and rulings thereunder:

(1) it will account for all Gross Proceeds of the Bonds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last Bond is discharged. However, to the extent permitted by law, the City may commingle Gross Proceeds of the Bonds with its other money, provided that the City separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith;

(2) not less frequently than each Computation Date, it will calculate or cause to be calculated the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder. The Trustee may rely conclusively upon the City’s determinations, calculations and certifications required by this Section. The Trustee shall have no responsibility to independently make any calculation of determination or to review the City’s calculations hereunder. The City covenants that it will maintain a copy of the calculation with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date;

(3) it will deposit in the Rebate Fund and cause the Trustee to pay to the United States the amount that when added to the future value of previous rebate payments made for the Bonds equals (A) in the case of a Final Computation Date as defined in section 1.148-3(e)(2) of the Tax Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (B) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such a date. In all cases

such Rebate payments shall be made by the City (or by the Trustee at the direction of the City) at the times and in the amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, and such payments shall be accompanied by Form 8038-T executed by the City or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder; and

(4) it will exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3) above, and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) or other provision of the Tax Regulations.

(i) Not to Divert Arbitrage Profits. The City covenants that, except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, at no time prior to the final maturity of the Bonds will it enter into any transaction that reduces the amount required to be paid to the United States pursuant to paragraph (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield on the Bonds not been relevant to each party.

(j) Bonds Not Hedge Bonds.

(1) The City represents and covenants that the Bonds will not be "hedge bonds" within the meaning of section 149(g) of the Code.

(2) Without limitation of paragraph (1) above, the City warrants that: (I) on date of issuance of the Bonds, the City reasonably expects that at least 85% of the spendable proceeds of the Bonds will be expended within the three-year period commencing on such date of issuance, and (II) no more than 50% of the proceeds of the Bonds at any time will be invested in Nonpurpose Investments having a substantially guaranteed yield for a period of four years or more.

(k) Use of Proceeds; Weighted Average Maturity. The City hereby represents and covenants that it will apply the proceeds of the Bonds in a manner so that the weighted average maturity of the Bonds does not exceed 120% of the average reasonably expected remaining economic life of the Leased Property (all determined in accordance with the provisions of section 147(b) of the Code).

(l) Elections. The City hereby directs and authorizes any Responsible Officer to make elections permitted or required pursuant to the provisions of the Code or the Tax Regulations, as such Responsible Officer (after consultation with Bond Counsel) deems necessary or appropriate in connection with the Bonds, in the Tax Certificate relating to the Bonds or similar or other appropriate certificate, form or document.

(m) Closing Certificate. The City agrees to execute and deliver in connection with the execution and delivery of this Lease a Tax Certificate as to Arbitrage and the provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986, or similar document containing additional representations and covenants pertaining to the exclusion of the interest on the Bonds from the gross income of the owners thereof

for federal income tax purposes, which representations and covenants are incorporated as though expressly set forth herein.

SECTION 19. OTHER COVENANTS OF THE CITY AND AUTHORITY

(a) Right of Entry. The Authority and its assignees shall have the right to enter upon and to examine and inspect the Leased Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under this Lease Agreement, and for all other lawful purposes.

(b) Liens. In the event that the City shall at any time during the term of this Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Leased Property, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Leased Property and which may be secured by a mechanics', materialmen's or other lien against the Leased Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so as long as such contestment is in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment.

(c) Quiet Enjoyment. The parties hereto mutually covenant that the City, by keeping and performing the covenants and agreements herein contained, shall at all times during the term of this Lease Agreement peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Authority.

(d) Authority Not Liable. The Authority and its directors, officers, agents and employees, shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Leased Property. To the extent permitted by law, the City shall, at its expense, indemnify and hold the Authority and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any person, firm, corporation or governmental authority arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Leased Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Leased Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the persons or entity seeking indemnity. The City also covenants and agrees, at its expense, to pay and indemnify and save the Authority and the Trustee and all directors, officers and employees thereof harmless against and from any and all claims arising from: (a) any condition of the Leased Property and the adjoining sidewalks and passageways; (b) any breach or default on the part of the City in the performance of any covenant or agreement to be performed by the City pursuant to this Lease Agreement; (c) any act or negligence of licensees in connection with their use, occupancy or Operation of the Leased Property; or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Leased Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in this Section, but excepting the negligence or willful misconduct of the person or entity seeking indemnity. In the event that any action or proceeding is brought against the Authority or the Trustee or any director, member, officer or employee thereof, by reason of any such claim, the City,

upon notice from the Authority or the Trustee or such director, member, officer employee thereof, covenants to resist or defend such action or proceeding by counsel reasonably satisfactory to the Authority or the Trustee or such director, member, officer or employee thereof.

(e) Assignment and Subleasing. Neither this Lease Agreement nor any interest of the City hereunder shall be sold, mortgaged, pledged, assigned or transferred by the City by voluntary act or by operation by law or otherwise. The Leased Property may not be subleased in whole or in part by the City without the prior written consent of the Authority. Any such sublease shall be subject to all of the following conditions:

(i) this Lease Agreement and the obligation of the City to make all Rental Payments hereunder shall remain the primary obligation of the City;

(ii) the City shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;

(iii) no such sublease by the City shall cause the Leased Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California;

(iv) any sublease of the Leased Property by the City shall explicitly provide that such sublease is subject to all rights of the Authority under this Lease Agreement, including, the right to re-enter and re-let the Leased Property or terminate this Lease Agreement upon a default by the City; and

(v) the City shall furnish the Authority and the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes.

(f) Title to Leased Property. Upon the termination or expiration of this Lease Agreement, and the first date upon which the Bonds are no longer Outstanding, all right, title and interest in and to the Leased Property shall vest in the City. Upon any such termination or expiration, the Authority shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

(g) Authority's Purpose. The Authority covenants that, prior to the discharge of this Lease Agreement and the Bonds, it will not engage in any activities inconsistent with the purposes for which the Authority is organized, as set forth in the Joint Powers Agreement.

(h) Representations of the City. The City represents and warrants to the Authority that: (a) the City has the full power and authority to enter into, to execute and to deliver this Lease Agreement and the Indenture, and to perform all of its duties and obligations hereunder and thereunder, and has duly authorized the execution and delivery of this Lease Agreement and the Indenture; and (b) the Leased Property will be used in the performance of essential governmental functions.

(i) Representation of the Authority. The Authority represents and warrants to the City that the Authority has the full power and authority to enter into, to execute and to deliver this Lease, the Assignment

Agreement and the Indenture, and to perform all of its duties and obligations hereunder and thereunder, and has duly authorized the execution and delivery of this Lease, the Assignment Agreement and the Indenture.

SECTION 20. CONTINUING DISCLOSURE

The City will comply with the continuing disclosure requirements applicable to it promulgated under U.S. Securities and Exchange Commission Rule 15c2-12 and will also comply with its obligations under the Continuing Disclosure Agreement, dated as of October 1, 2019, by and between the City and Urban Futures, Inc., related to the Bonds and under any continuing disclosure agreement related to Additional Bonds that are subject to Rule 15c2-12; provided, however, that the sole remedy hereunder in the event of any failure of the City to comply with this covenant shall be an action to compel performance and the City's failure to comply with any continuing disclosure requirement shall not be deemed a default or an Event of Default.

SECTION 21. WAIVER

Failure of the Authority to take advantage of any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may be established between the parties in the course of administering this Lease be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition hereof, or to exercise any rights given the Authority on account of such default. A waiver of a particular default shall not be deemed to be a waiver of the same or any subsequent default. The acceptance of rent hereunder shall not be, nor be construed to be, a waiver of any term, covenant or condition of this Lease.

SECTION 22. NET LEASE

Subject to the provisions of Section 17 ("Abatement of Rental"), this Lease shall be deemed and construed to be a "Triple-Net Lease" and the City hereby agrees that rental provided for herein shall be an absolute net return to the Authority, free and clear of any expenses, taxes, fees, insurance premiums, rebate payments, reserve deposits, charges or setoffs whatsoever.

SECTION 23. AMENDMENTS

This Lease may be amended in writing as may be mutually agreed by the Authority and the City; provided, that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than a majority in aggregate principal amount of the affected Bonds and any Additional Bonds then Outstanding, and *provided further*, that no such amendment shall (a) extend the payment date of any Base Rental Payment, without the prior written consent of the Owner of each Bond so affected, or (b) reduce the percentage of the Outstanding Bonds the consent of the Owners of which is required for the execution of any amendment hereof.

This Lease and the rights and obligations of the Authority and the City hereunder may also be amended or supplemented at any time by an amendment hereof or supplement hereto which shall become binding upon execution by the Authority and the City without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed herein and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved herein to or conferred herein on the Authority or the City, and which in either case shall not materially adversely affect the interests of the Owners;

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

(c) to effect a Substitution or Removal;

(d) to increase the amount of Base Rental Payment payable hereunder for the purpose of allowing the Authority to add any real property to be acquired and leased hereunder or for the issuance of Additional Bonds; or

(e) for any other purpose which shall not materially adversely affect the interests of the Owners.

SECTION 24. ESSENTIALITY

The City covenants and agrees that the Leased Property is essential to the City's exercise of its governmental functions.

SECTION 25. LAW GOVERNING

This Lease shall be governed exclusively by the provisions hereof and by the laws of the State of California.

SECTION 27. NOTICES

All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or by facsimile transmission or if mailed by United States first class mail, postage prepaid, and, if to the City, addressed to the Administrative Services Director, City of Mount Shasta, 305 N. Mt. Shasta Boulevard, Mount Shasta, California 96067, Fax: (530) ___-___, or if to the Authority, addressed to the Treasurer, Mount Shasta Public Financing Authority, 305 N. Mt. Shasta Boulevard, Mount Shasta, California 96067, Fax: (530) ___-___, or to such other addresses as the respective parties may from time to time designate by notice in writing.

SECTION 28. VALIDITY AND SEVERABILITY

If for any reason this Lease shall be held by a court of competent jurisdiction to be void, voidable, or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants of the City hereunder, including the covenant to pay rentals hereunder, is unenforceable for the full term hereof, then and in such event this Lease is and shall be deemed to be a lease from year to year under which the rentals are to be paid by the City monthly in consideration of the right of the City to possess, occupy

and use the Leased Property, and all of the rental and other terms, provisions and conditions of this Lease, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

SECTION 29. SECTION HEADINGS

All section headings contained are for convenience of reference only and are not intended to define or limit the scope of any provision of this Lease.

SECTION 30. NO MERGER

If both the Authority's and the City's estate under this or any other lease relating to the Leased Property or any portion thereof shall at any time or for any reason become vested in one owner, this Lease and the estate created hereby shall not be destroyed or terminated by the doctrine of merger unless the City so elects as evidenced by recording a written declaration so stating, and unless and until the City so elects, the City shall continue to have and enjoy all of its rights and privileges as to the separate estates.

SECTION 31. EXECUTION; RECORDATION

It is agreed that separate counterparts of this Lease may separately be executed by the Authority and the City, all with the same force and effect as though the same counterpart had been executed by both the Authority and the City.

This Lease, or a memorandum hereof, shall be recorded at the commencement of the term hereof, in the Land Records of Siskiyou County, California.

SECTION 32. FINDINGS OF LESSEE

The Lessee finds and declares that the issuance of the Bonds will result in significant public benefits to the citizens of the Lessee, including but not limited to demonstrable savings in effective interest rate, bond preparation, bond underwriting or bond issuance costs.

[Signature page to follow on next page]

IN WITNESS WHEREOF, the Authority and the City have caused this Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

CITY OF MOUNT SHASTA, CALIFORNIA

By _____
Bruce D. Pope, City Manager

Attest:

By _____
Kathryn M. Wilson, City Clerk

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

By _____
Muriel Terrell, Treasurer

Attest:

By _____
Kathryn M. Wilson, Secretary

EXHIBIT A

DESCRIPTION OF LEASED PROPERTY

ALL THAT CERTAIN REAL PROPERTY (ALONG WITH ALL IMPROVEMENTS, FIXTURES AND FACILITIES AT ANY TIME SITUATED THEREON) SITUATED IN THE CITY OF MOUNT SHASTA, COUNTY OF SISKIYOU, STATE OF CALIFORNIA, AND ANY IMPROVEMENTS THERETO, DESCRIBED AS FOLLOWS:

EXHIBIT B

BASE RENTAL PAYMENT SCHEDULE

<u>Interest Payment Date*</u>	<u>Principal Component of Base Rental</u>	<u>Interest Component of Base Rental</u>	<u>Total Base Rental</u>	<u>Total Annual Base Rental</u>
-----------------------------------	---	--	------------------------------	-------------------------------------

Totals

_____	_____	_____	_____
=====	=====	=====	=====

* This represents the Interest Payment Date on the Bonds. The City must make each of the scheduled Base Rental Payments to the Trustee on or before each respective Lease Payment Date, being the fifteenth (5th) calendar day of the month immediately preceding each such Interest Payment Date.

CERTIFICATE OF ACCEPTANCE OF LEASE AGREEMENT

This is to certify that the interest in real property conveyed by the Lease Agreement, dated as of October 1, 2019, from Mount Shasta Public Financing Authority, as sublessor, to the City of Mount Shasta, California, as sublessee (the "City"), as evidenced by the Memorandum of Lease Agreement recorded concurrently herewith, is hereby accepted by the undersigned officer on behalf of the City pursuant to authority conferred by resolution of the City Council adopted on September 23, 2019, and the City consents to recordation thereof by its duly authorized officer.

Dated as of October __, 2019

CITY OF MOUNT SHASTA, CALIFORNIA

By: _____
Bruce D. Pope, City Manager

INSTALLMENT SALE AGREEMENT

Dated as of October 1, 2019

by and between the

**MOUNT SHASTA PUBLIC FINANCING AUTHORITY,
as Seller**

and the

**CITY OF MOUNT SHASTA,
as Purchaser**

Relating to

**\$ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED**

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EXHIBIT A - SCHEDULE OF INSTALLMENT PAYMENTS EXHIBIT B - DESCRIPTION OF PROJECT

INSTALLMENT SALE AGREEMENT

This INSTALLMENT SALE AGREEMENT (this “Agreement”), dated as of October 1, 2019, is by and between the MOUNT SHASTA PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the “Authority”), and the CITY OF MOUNT SHASTA, a municipal corporation and general law city, duly organized and existing under and by virtue of the Constitution and the laws of the State of California (the “City”);

WITNESSETH:

WHEREAS, the Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated as of May 13, 2019, by and between the City and the Mount Shasta Industrial Development Authority, and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Act”), and is authorized pursuant to Article 4 (commencing with Section 6584) of the Act (the “Bond Law”) to borrow money for the purpose, among other things, of acquiring and constructing wastewater facilities of the City, and to finance the acquisition of such facilities through the execution of installment sale agreements; and

WHEREAS, the City owns and operates a system for the collection, treatment and disposal of wastewater within the service area of the City (the “Enterprise”), and the City wishes to finance improvements to the Wastewater Enterprise consisting generally of certain solar and energy efficiency improvements (the “Project”); and

WHEREAS, the Authority has the power to assist the City in the financing and refinancing of facilities and property useful to the City, and the Authority has proposed to enter into this Installment Sale Agreement with the City under which the Authority has agreed to provide financing for the Project, by selling the Project to the City in consideration of the agreement by the City to pay the purchase price of the Project in semiannual installments (the “Installment Payments”); and

WHEREAS, the obligation of the Enterprise to pay Installment Payments will be secured by an irrevocable pledge of Net Revenues, as defined herein; and

WHEREAS, for the purpose of obtaining the moneys required to finance the Project in accordance with the terms hereof, the Authority has assigned and transferred certain of its rights under this Installment Sale Agreement to U.S. Bank National Association, as trustee (the “Trustee”), under an Indenture of Trust dated as of October 1, 2019 (the “Indenture”), by and among the Authority, the City and the Trustee, under which the Trustee has executed and delivered the Mount Shasta Public Financing Authority, Series 2019 Revenue Bonds in the aggregate principal amount of \$_____, to finance, among other things, the cost of acquiring and installing the Projects (the “Enterprise Revenue Bonds”); and

WHEREAS, the Authority and the City have duly authorized the execution and delivery of this Installment Sale Agreement; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Installment Sale

Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Sale Agreement;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto hereby formally covenant, agree and bind themselves as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Installment Sale Agreement shall have the respective meanings specified in the Indenture. In addition, the following terms defined in this Section 1.1 shall, for all purposes of this Installment Sale Agreement, have the respective meanings herein specified.

“Acquisition,” “Acquire” or “Acquisition and Installation” means, with respect to any portion of the Projects, the acquisition, installation, improvement, equipping, renovation, remodeling or reconstruction thereof.

“Act” means the Joint Exercise of Powers Act, being 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 amounts payable by the City pursuant to Section 4.10.

“Additional Revenues” means, as to each Enterprise, with respect to the projection of Net Revenues to be received in any Fiscal Year in connection with the issuance of any Parity Obligations under Section 4.9, any or all of the following amounts:

(a) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprise to be made by the City from the proceeds of such Parity Obligation, in an amount equal to 100% of the estimated additional Net Revenues to be received in such Fiscal Year from properties to which service will be provided by such additions, improvements and extensions.

(b) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise which has been adopted prior to the incurring of such Parity Obligation, in an amount equal to 100% of the estimated additional Net Revenues which are projected to be received in such Fiscal Year from such increased charges.

“Agreement” or “Installment Sale Agreement” means this Installment Sale Agreement, dated as of October 1, 2019, by and between the City and the Authority relating to the Projects, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

“Allocable Share” means (i) with respect to the Wastewater Enterprise, Installment Payments Attributable to the Wastewater Enterprise due in a particular Fiscal Year divided by Installment Payments

due in the same Fiscal Year, and (ii) with respect to the Water Enterprise, Installment Payments Attributable to the Water Enterprise due in a particular Fiscal Year divided by Installment Payments due in the same Fiscal Year, as all such amounts are set forth on Exhibit A.

“Authority” means the Mount Shasta Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State, including the Act.

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

“Business Day” means any day other than Saturday, Sunday or holiday or a day on which the Trustee or its affiliates or banks in San Francisco, California, are not required or authorized to remain closed.

“Certificate,” “Request” and “Requisition” of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority by its Authorized Representative or in the name of the City on its own behalf or as agent of the Authority by the City’s 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.

“City” means the City of Mount Shasta, a municipal corporation and general law city, duly organized and existing under and by virtue of the laws and Constitution of the State of California; however, any reference to City in this Installment Sale Agreement shall specifically mean the Enterprises of the City, unless the context clearly indicates otherwise.

“City Council” means the City Council of the City.

“Closing Date” means the date upon which there is a physical delivery of the Enterprise Revenue Bonds in exchange for the amount representing the payment of the purchase price of the Enterprise Revenue Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended, and regulations issued thereunder.

“Date of Operation” means, with respect to any uncompleted portion of any Project, the estimated date by which such portion of the Project will have been completed and ready for commercial operation by or on behalf of the City.

“Debt Service” means, for any period of calculation, the sum of: (a) either the Installment Payments Attributable to the Wastewater Enterprise or the Installment Payments Attributable to the Water Enterprise, as the case may be, coming due and payable in such period, except to the extent that interest thereof is payable from the proceeds of the Enterprise Revenue Bonds, plus (b) the principal of and interest on all outstanding

Parity Obligations coming due and payable in such period, except to the extent that interest thereof is payable from the proceeds of the Parity Obligations; but less any earnings to be derived from the investment of applicable amounts on deposit in the Reserve Fund allocable to this Installment Sale Agreement, or in any debt service reserve funds established for Parity Obligations.

“Defeasance Obligations” means and includes any of the following securities, if and to the extent the same are non-allocable and not subject to redemption at the option of the issuer, at the time legal for investment of the City’s funds, as determined by the City: direct obligations of, or obligations the full and timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book entry from on the books of the Department of the Treasury of the United States of America and including a receipt, certificate or any other evidence of a direct ownership interest in future payments of an obligations of, or unconditionally guaranteed by, the United States of America, or in specified portions thereof held by a custodian in safekeeping for the holders of such receipt, certificate or any other evidence of ownership (which may consist of specified portions of interest thereon), but excluding any share of interest in any unitary investment trust or mutual fund unless such unitary investment trust or mutual fund is rated or assessed in the highest rating category of each of the Rating Agencies.

“Engineer’s Report” means a report signed by an Independent Engineer.

“Enterprise Funds” or “Utility Funds” means, collectively, the Water Fund and the Wastewater Fund.

“Enterprises” means, collectively, the Water Enterprise and the Wastewater Enterprise.

“Enterprise Revenue Bonds” means the Mount Shasta Public Financing Authority, Series 2018A Enterprise Revenue Bonds (City and WW Treatment Plant Solar Project), issued pursuant to the Indenture on August 7, 2018, in the aggregate principal amount of \$ _____.

“Equipment” means, collectively, the Water Equipment and the Wastewater Equipment.

“Event of Default” means any of the events described in Section 8.1.

“Fiscal Consultant” means any consultant or firm of such consultants appointed by the Authority and the City and who, or each of whom: (a) is judged by the Authority and/or the City to have experience in matters relating to the financing of water and wastewater systems; (b) is in fact independent and not under domination of either the Authority or the City; (c) does not have any substantial interest, direct or indirect, with either the Authority or the City other than as purchaser of the Enterprise Revenue Bonds or any Parity Obligations; and (d) is not connected with the Authority or the City as an officer or employee of either the Authority or the City, but who may be regularly retained to make reports to the Authority and/or the City.

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

“Fitch” means Fitch Ratings, Ltd., its successors and assigns.

“Gross Revenues” means, as to each Enterprise, for any Fiscal Year or other period, all gross income and revenue received by the City from the ownership and operation of the Enterprise, including, but not limited to the following: (a) all income, rents, rates, fees, charges and other moneys received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Enterprise or otherwise arising from the Enterprise, (b) all amounts levied by the City as a fee for connecting to the Enterprise, as such fee is established from time to time under the applicable laws of the State of California; (c) all proceeds of insurance (if any) covering business interruptions loss relating to the Enterprise, (d) the earnings on and income derived from the investment of the foregoing income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Enterprise; (e) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Enterprise as permitted in this Agreement; and (e) amounts transferred from a Rate Stabilization Fund to the respective Wastewater Fund or Water Fund, as the case may be, in any Fiscal Year under Section 4.7(c).

The term “Gross Revenues” does not include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Enterprise.

“Indenture” means the Indenture of Trust, dated as of October 1, 2019, by and among the Trustee, the City and the Authority relating to the Enterprise Revenue Bonds.

“Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to Water treatment, collection and distribution systems, appointed and paid by the City, and who or each of whom –

- (1) is in fact independent and not under the domination of the City;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the City; and
- (3) is not connected with the City as a director, officer or employee of the City, but may be regularly retained to make reports to the City.

“Interest Components” means interest component(s) of any of the Base Rental Payments as set forth in Exhibit A hereto.

“Installment Payment Date” means the fifth Business Day preceding each February 1 and August 1 during the Term of this Installment Sale Agreement, commencing February 1, 2020.

“Installment Payments” means, collectively, (i) the Installment Payments Attributable to the Water Enterprise and (ii) the Installment Payments Attributable to the Wastewater Enterprise.

“Installment Payments Attributable to the Water Enterprise” means the Allocable Share of Installment Payments (denominated into Principal Components and Interest Components) with respect to the Water Enterprise due in a particular Fiscal Year, as such amounts are set forth on Exhibit A.

“Installment Payments Attributable to the Wastewater Enterprise” means the Allocable Share of Installment Payments (denominated into Principal Components and Interest Components) with respect to the Wastewater Enterprise due in a particular Fiscal Year, as such amounts are set forth on Exhibit A.

“Installment Revenue Fund” means the fund by that name established pursuant to Section 5.01.1 of the Indenture.

“Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Enterprise Revenue Bonds when due.

“Insurer” or “Bond Insurer” means Municipal Assurance Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns.

“Net Proceeds” means, when used with respect to any condemnation award or any insurance proceeds received with respect to the Water Enterprise and/or the Wastewater Enterprise, as the case may be, the amount of such respective condemnation award or insurance proceeds remaining after payment of all expenses (including reasonable attorneys’ fees) incurred in the collection of such award or proceeds.

“Net Revenues” means, with respect to the Water Enterprise or the Wastewater Enterprise for any period, all of the Gross Revenues received from the respective Enterprise during such period minus the amount required to pay all Operation and Maintenance Costs of the respective Enterprise which are payable during such period.

“Operation and Maintenance Costs” means, with respect to the Water Enterprise or the Wastewater Enterprise, as applicable, all costs paid or incurred by the City for maintaining and operating the Water Enterprise or the Wastewater Enterprise, as the case may be, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to operate, maintain and preserve the Water Enterprise or the Wastewater Enterprise as the case may be, in good repair and working order, (b) all administrative costs of the City that are charged directly or apportioned to the operation of the Water Enterprise or the Wastewater Enterprise, as the case may be, such as salaries and wages of employees, overhead, taxes (if any) and insurance, and (c) administrative costs of the Enterprise Revenue Bonds which the City is required to pay hereunder, including Additional Payments. “Operation and Maintenance Costs” do not include (i) payments of debt service on bonds, notes, contracts or other obligations issued by the City with respect to the Water Enterprise or the Wastewater Enterprise, as applicable, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Opinion of Counsel” means a written opinion of The Weist Law Firm or such other counsel of recognized national standing in the field of law relating to municipal bonds retained by the City.

“Original Purchaser” means Hilltop Securities Inc., as the first purchaser of the Enterprise Revenue Bonds upon their delivery by the Trustee on the Closing Date.

“Overdue Rate” means the highest rate of interest represented by any of the Outstanding Enterprise Revenue Bonds.

“Owner” “Holder” “Bond Owner” or “Bond Holder,” 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, as to each Enterprise, any bonds, notes, leases, installment sale agreements, contracts or other obligations of the City which are secured by a pledge of and lien upon any of the Gross Revenues of such Enterprise and which are payable from the Net Revenues of such Enterprise on a parity with such Enterprise’s Allocable Share of the Installment Payments, entered into or issued under and in accordance with Section 4.9 hereof.

“Parity Obligation Documents” means, collectively, the indenture of trust, trust agreement, contract or other document which authorizes the issuance of any Parity Obligations or otherwise establishes or evidences Parity Obligations.

“Parity Payments” means all installment payments scheduled to be paid by the City under all Parity Obligations.

“Principal Components” means principal component(s) of any of the Base Rental Payments as set forth in Exhibit A hereto.

“Project” or “Projects” means, collectively, the Water Project and the Wastewater Project.

“Project Costs” means the costs associated with the Acquisition and Installation of all or applicable component parts of the Projects.

“Project Fund” means the fund by that name established pursuant to Section 3.04 of the Indenture.

“Purchase Price” means the purchase price of the Project, in the aggregate principal amount of Three Million Six Hundred Thousand Dollars (\$ _____), together with interest on the unpaid principal balance, payable in Installment Payments coming due and payable in the respective amounts and on the respective dates specified in Exhibit A.

“Qualified Reserve Fund Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) which is rated in at least one of the three highest rating categories by two of the following four rating agencies: Moody’s, S&P, Fitch, or A.M. Best & Company; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement to be satisfied with such Qualified Reserve Fund Credit Instrument; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to the Indenture, or to draw the amount available under such letter of credit or surety bond in the event that such letter of credit or surety bond is not renewed.

“Rate Stabilization Fund” means any fund established and held by the City as a fund for the stabilization of rates and charges imposed by the City with respect to the respective Enterprise, which fund is established, held and maintained in accordance with Section 4.7(c) hereof.

“Rating Agencies” means, as of any date, each of the following entities: Fitch, S&P and Moody’s, and their respective corporate successors and any other nationally recognized statistical rating organization (as that term is used in the rules and regulations of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended).

“Reserve Fund” means the account by that name in the Installment Revenue Fund established and maintained pursuant to Section 5.06.1 of the Indenture.

“Reserve Policy” means the municipal bond debt service reserve insurance policy issued by the Insurer for deposit in the Reserve Fund for the benefit of the Enterprise Revenue Bonds. The Reserve Policy shall constitute a Qualified Reserve Fund Credit Instrument for all purposes of this Installment Sale Agreement.

“Specifications” means the bid specifications and/or purchase order pursuant to which City has ordered any Equipment from a Supplier.

“State” means the State of California.

“Subordinate Obligations” means all Supplemental Installment Sale Agreements or Payment Agreements the Subordinate Payments under which are secured by the subordinate lien on Net Revenues created hereby and are payable on a parity therefrom.

“Subordinate Payment Agreements” means a Payment Agreement which is a Subordinate Obligation.

“Subordinate Payments” means all installment payments scheduled to be paid by the City under all Subordinate Obligations.

“Supplier” means each of the manufacturers or vendors from whom City has ordered or with whom City has contracted for the manufacture, delivery and/or installation of the Equipment.

“Supplemental Installment Sale Agreements” means all installment sale agreements supplemental to this Installment Sale Agreement executed and entered into by the City and the Authority under and pursuant to this Installment Sale Agreement and applicable law, as originally executed and entered into and as they may from time to time be amended or supplemented in accordance herewith and therewith.

“Term” means the time during which this Installment Sale Agreement is in effect, as provided in Section 4.2 hereof.

“Utility Funds” means, collectively, the City’s Water Fund and Wastewater Fund.

“Trustee” means U.S. Bank National Association, serving as Trustee under the Indenture, or any

other trust company or banking corporation which may at any time be substituted in its place as provided in the Indenture.

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

“Variable Interest Rate Contracts” means, for any period of time, any Supplemental Installment Sale Agreements that bear a Variable Interest Rate during such period, except that no Supplemental Installment Sale Agreement shall be treated as a Variable Interest Rate Contract if the net economic effect of interest rates on any particular Payments or such Supplemental Installment Sale Agreement and interest rates on any other Payments of the same Supplemental Installment Sale Agreement, as set forth in such Supplemental Installment Sale Agreement, or the net economic effect of a Payment Agreement with respect to any particular Payments, in either case is to produce obligations that bear interest at a fixed interest rate, and any Supplemental Installment Sale Agreement with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Contract if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

“Wastewater Enterprise” means, collectively, the entire wastewater collection, treatment and disposal system owned or operated by the City, including but not limited to all facilities, properties and improvements at any time owned or operated by the City for the collection, treatment and disposal of wastewater within the service area of the City, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

“Wastewater Equipment” means Acquisition and Installation of (a) the equipment and other personal property identified as Wastewater Equipment in Exhibit B hereto, as the same may be supplemented by each Additional Equipment Certificate (in the form of Exhibit B-1), and (b) any property Acquired in substitution, renewal, repair or replacement for or as additions, improvements, accessions and accumulations to any of such equipment. Whenever reference is made in this Installment Sale Agreement to Wastewater Project, Project, Equipment or Wastewater Equipment, such reference shall be deemed to include all such replacements, repairs, restorations, modifications and improvements of or to such Wastewater Project, Project, Equipment or Wastewater Equipment.

“Wastewater Fund” means the fund or funds established and held by the City with respect to the Wastewater Enterprise for the deposit of Gross Revenues of the Wastewater Enterprise.

“Wastewater Project Account” means the account by that name within the Project Fund established and held by the Trustee pursuant to Section 3.04 of the Indenture.

“Wastewater Project” means the Equipment and any additions, betterments, extensions or improvements to the Wastewater Enterprise designated by the City Council as a designated Wastewater Project, the design, Acquisition and Installation of which (together with the incidental costs and expenses related thereto) is to be financed by the proceeds of the Enterprise Revenue Bonds, all as generally described in Exhibit B attached hereto and by this reference incorporated herein, as such description may be amended by the City from time to time pursuant to and in accordance with the terms hereof.

“Water Enterprise” means, collectively, the entire water supply, storage and distribution system of the City, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the City for the supply, treatment and storage of water to residents of the City and adjacent areas, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

“Water Equipment” means Acquisition and Installation of (a) the equipment and other personal property identified as Water Equipment in Exhibit B hereto, as the same may be supplemented by each Additional Equipment Certificate (in the form of Exhibit B-1), and (b) any property Acquired in substitution, renewal, repair or replacement for or as additions, improvements, accessions and accumulations to any of such equipment. Whenever reference is made in this Installment Sale Agreement to Water Project, Project, Equipment or Water Equipment, such reference shall be deemed to include all such replacements, repairs, restorations, modifications and improvements of or to such Water Project, Project, Equipment or Water Equipment.

“Water Fund” means the fund or funds established and held by the City with respect to the Water Enterprise for the deposit of Gross Revenues of the Water Enterprise.

“Water Project Account” means the account by that name within the Project Fund established and held by the Trustee pursuant to Section 3.04.

“Water Project” means the Equipment and any additions, betterments, extensions or improvements to the Water Enterprise designated by the City Council as a designated Water Project, the design, Acquisition and Installation of which (together with the incidental costs and expenses related thereto) is to be financed by the proceeds of the Enterprise Revenue Bonds, all as generally described in Exhibit B attached hereto and by this reference incorporated herein, as such description may be amended by the City from time to time pursuant to and in accordance with the terms hereof.

ARTICLE II

COVENANTS AND REPRESENTATIONS

Section 2.1. Covenants and Representations of the City. The City makes the following covenants and representations to the Authority and the Insurer that as of the Closing Date:

(a) The City is a municipal corporation and general law city, duly organized and validly existing under the laws of the State, has full legal right, power and authority to enter into this Installment Sale Agreement and to carry out and consummate all transactions contemplated hereby, and by proper action has duly authorized the execution and delivery of this Installment Sale Agreement.

(b) The representatives of the City executing this Installment Sale Agreement are fully authorized to execute the same.

(c) This Installment Sale Agreement has been duly authorized, executed and delivered by the City, and constitutes the legal, valid and binding agreement of the City, enforceable against the City in accordance with its terms.

(d) The execution and delivery of this Installment Sale Agreement, the consummation of the transactions herein contemplated and the fulfillment of or compliance with the terms and conditions hereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or the Project are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Installment Sale Agreement, or the financial condition, assets, Project or operations of the Enterprises.

(e) No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Installment Sale Agreement or the consummation of any transaction herein and therein contemplated, except as have been obtained or made and as are in full force and effect.

(f) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or threatened against or affecting the City or the Enterprises which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Installment Sale Agreement or upon the financial condition or operation of the Enterprises, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which

default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Installment Sale Agreement, or the financial conditions or operations of the Enterprises.

(g) The City has heretofore established the Utility Fund into which the City deposits and will continue to deposit all Gross Revenues, and which the City will maintain throughout the Term of this Installment Sale Agreement.

(h) Other than as described in the Official Statement relating to the Enterprise Revenue Bonds, there are no outstanding bonds, notes, loans, leases, installment sale agreements or other obligations which have any security interest in or claim upon the Net Revenues, which security interest or claim is superior to the Installment Payments.

(i) The City hereby agrees to pay or reimburse the Insurer, as Additional Payments, but solely from Net Revenues from the applicable Enterprise responsible for the reimbursement obligation, any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in connection herewith or under the Indenture or any other financing document relating to the Enterprise Revenue Bonds (the "Related Documents"); (ii) the pursuit of any remedies under the Indenture, this Installment Sale Agreement or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture, this Installment Sale Agreement or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Indenture, this Installment Sale Agreement or any other related document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture, this Installment Sale Agreement or any other Related Document.

(j) The City shall provide the Insurer with the following information:

(i) Annual audited financial statements by no later than nine months (March 31) following the end of the City's Fiscal Year (presently, the City's Fiscal Year ends on June 30), commencing with the Fiscal Year ended June 30, 2018 (together with a certification of the City that it is not aware of any default or Event of Default under this Installment Sale Agreement), and the City's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;

(ii) Notice of any default known to the City within five Business Days after knowledge thereof;

(iii) Notice of the commencement of any proceeding by or against the City commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(iv) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Enterprise Revenue Bonds;

(v) All reports, notices and correspondence to be delivered to Owners under the terms of this Installment Sale Agreement;

(vi) All information furnished pursuant to continuing disclosure agreement with respect to the Enterprise Revenue Bonds, shall also be provided to the Insurer, simultaneously with the furnishing of such information; and

(vii) Such additional information as the Insurer may reasonably request.

Section 2.2. Covenants and Representations of the Authority. The Authority makes the following covenants and representations as the basis for its undertakings herein contained:

(a) The Authority is a joint powers authority, duly organized and existing under the laws of the State. The Authority has the power to enter into the transactions contemplated by this Installment Sale Agreement and to carry out its obligations hereunder. By proper action of its governing body, the Authority has been duly authorized to execute, deliver and duly perform this Installment Sale Agreement and the Indenture.

(b) To finance the Project, the Reserve Fund deposit and the Costs of Issuance, the Authority will issue its Enterprise Revenue Bonds, which will mature, bear interest and be subject to redemption as set forth in the Indenture.

(c) The Enterprise Revenue Bonds will be issued under and secured by the Indenture, and pursuant thereto, certain of the Authority's interests in this Installment Sale Agreement have been assigned to the Trustee as security for payment of the principal of, premium, if any, and interest on the Enterprise Revenue Bonds.

(d) The Authority is not in default under any of the provisions of the laws of the State, which default would affect its existence or its powers referred to in subsection (a) of this Section 2.2.

ARTICLE III

ISSUANCE OF ENTERPRISE REVENUE BONDS; ACQUISITION AND INSTALLATION OF THE PROJECT

Section 3.1. The Enterprise Revenue Bonds. The Enterprise Revenue Bonds authorized to be issued by the Authority under and subject to the Bond Law and the terms of the Indenture shall be dated the Bond Date and be designated the "Mount Shasta Public Financing Authority, Series 2018A Enterprise Revenue Bonds (City and WW Treatment Plant Solar Project)," and shall be issued in the initial aggregate principal amount of Three Million Six Hundred Thousand Dollars (\$_____).

The Authority agrees that the proceeds of sale of the Enterprise Revenue Bonds shall be paid to the Trustee on the Closing Date for deposit pursuant to the terms and conditions of the Indenture. The City hereby approves the Indenture, the assignment to the Trustee of the rights of the Authority assigned under

and pursuant to the Indenture, and the issuance of the Enterprise Revenue Bonds by the Authority under and pursuant to the Indenture.

Section 3.2. Specifications for the Projects. Before any payment is made for the Projects or any component thereof from corresponding amounts on deposit in either (i) the Water Project Account, or (ii) the Wastewater Project Account, as the case may be, within the Project Fund, the City shall have filed with the Authority the Specifications relating thereto. The City may from time to time file amendments to such Specifications with the Authority, and may thereby change or modify the description of the Projects or any component thereof.

Section 3.3. Acquisition and Installation of the Projects. The Authority hereby agrees with due diligence to supervise and provide for, or cause to be supervised and provided, for the Acquisition and Installation of the Projects in accordance with Specifications, purchase orders, construction contracts and other documents relating thereto and approved by the City pursuant to all applicable requirements of law. Direct payment of the Project Costs shall be made from corresponding amounts on deposit in either (i) the Water Project Account, or (ii) the Wastewater Project Account, as the case may be, within the Project Fund, pursuant to Section 3.04 of the Indenture. All contracts for, and all work relating to, the Acquisition and Installation of the Projects shall be subject to all applicable provisions of law relating to the acquisition and installation of public works by the City. The Authority expects that the Acquisition and Installation of the Projects will be completed on or before July 1, 2021; provided, however, that the failure to complete any Projects by the estimated Completion Date thereof shall not constitute an Event of Default hereunder or a grounds for termination hereof, nor shall such failure result in the diminution, abatement or extinguishment of the obligations of the City hereunder to pay the Installment Payments allocable to such Projects.

The City shall have the right from time to time in its sole discretion to amend the description of the Projects to be financed and sold by the Authority hereunder. In order to exercise such right, the City shall file with the Authority and the Trustee an amended Exhibit B hereto.

Upon the completion of the Acquisition and Installation of the Water Project and the Wastewater Project, as applicable, the amounts, if any, on deposit in the corresponding applicable (i) Water Project Account, or (ii) the Wastewater Project Account, as the case may be, shall be deposited by the Trustee for deposit in the Installment Revenue Fund and the Trustee shall close such corresponding applicable (i) Water Project Account, or (ii) the Wastewater Project Account, as the case may be.

Section 3.4. Grant of Easements. The City hereby grants to the Authority all necessary easements, rights of way and rights of access in and to all real property or interests therein now or hereafter acquired and owned by the City, as may be necessary or convenient to enable the Authority to Acquire, construct and install the Projects thereon or thereabouts. The City covenants that it will execute, deliver and record any and all additional documents as may be required to be executed, delivered and recorded to establish such easements, rights of way and rights of access.

Section 3.5. Appointment of City as Agent of Authority. The Authority hereby appoints the City as its agent to carry out all phases of the Acquisition and Installation of the Projects pursuant to and in accordance with the provisions hereof. The City hereby accepts such appointment and assumes all rights, liabilities, duties and responsibilities of the Authority regarding the Acquisition and Installation of the Projects.

The Authority, or the City as agent of the Authority hereunder, shall enter into, administer and enforce all purchase orders or other contracts relating to the Acquisition and Installation of the Projects. All contracts for, and all work relating to, the Acquisition and Installation of the Projects shall be subject to all applicable provisions of law relating to the acquisition, construction, improvement, and equipping of like projects and property by joint powers authorities and by municipal corporations.

ARTICLE IV

SALE OF PROJECT; INSTALLMENT PAYMENTS

Section 4.1. Acquisition and Sale of Project. The Authority hereby sells the Project to the City and the City hereby purchases the Project from the Authority, upon the terms and conditions set forth in this Installment Sale Agreement.

Section 4.2. Term. The Term of this 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, Additional Payments and all other amounts due and payable hereunder. The provisions of this Section 4.2 are subject in all respects to any other provisions of this Installment Sale Agreement relating to the termination hereof with respect to the Project or any portion thereof.

Section 4.3. 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.

Section 4.4. Installment Payments.

(a) **Obligation to Pay.** The City hereby agrees to pay to the Authority, as the purchase price of the Projects hereunder, the aggregate principal amount of \$_____ together with interest (calculated on the basis of a 360-day year of twelve 30-day months) on the unpaid principal balance thereof, payable in semiannual Installment Payments in the respective amounts and on the respective Interest Payment Dates specified in Exhibit A. On each Installment Payment Date, the City shall deposit with the Trustee, as assignee of the Authority under the Indenture, an amount which, together with corresponding amounts then held by the Trustee, is equal to the full amount of such Installment Payment coming due and payable on the next Interest Payment Date. The Installment Payments shall be secured by and payable solely from the sources specified in Section 4.5. The City shall specifically identify the Installment Payments as either “Installment Payments Attributable to the Wastewater Enterprise” or “Installment Payments Attributable to the Water Enterprise,” as the case may be.

(b) **Effect of Prepayment.** In the event that the City prepays all remaining Installment Payments in full pursuant to Article IX, the City’s obligations under this Installment Sale Agreement shall thereupon cease and terminate, including but not limited to the City’s obligation to pay Installment Payments therefor under this Section 4.4; *provided, however*, that the City’s obligations to compensate and indemnify the Trustee pursuant to Sections 4.10 and 6.3, and to pay any amounts due and owing the Insurer hereunder or under the Indenture, shall survive such prepayment. In the event that the City prepays the Installment Payments in part

but not in whole pursuant to Section 9.2 or Section 9.3, the principal component of each succeeding Installment Payment shall be reduced as provided in such Section, 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 Enterprise Revenue Bonds thereby redeemed pursuant to the applicable provisions of Section 4.01.1 of the Indenture.

(c) Rate on Overdue Payments. In the event the City should fail to make any of the payments required in this Section 4.4 and Section 4.10 hereof, 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 Overdue Rate, or at such other rate as may be provided in this Installment Sale Agreement and the Indenture.

(d) 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 Enterprise Revenue Bonds, and the City hereby assents to such assignment. The Authority hereby directs the City, and the City hereby agrees, to pay to the Trustee at its Office, all amounts payable by the City pursuant to this Section 4.4 and all amounts payable by the City pursuant to Article IX hereof.

Section 4.5. Pledge and Application of Net Revenues.

(a) Pledge of Net Revenues. Subject to the limitations set forth in this Installment Sale Agreement with respect to the respective Allocable Shares of the Water Enterprise and the Wastewater Enterprise, including those set forth in subsection (b), all of the Net Revenues and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Indenture are hereby irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments. Such pledge, charge and assignment constitute a lien on and security interest in the Net Revenues and such other moneys for the payment of the Installment Payments in accordance with the terms hereof, on a parity with the pledge and lien which secures any Parity Obligations of each respective Enterprise.

(b) Limitations Relating to Allocable Share. The Installment Payments Attributable to the Water Enterprise and the Installment Payments Attributable to the Wastewater Enterprise are separately identified on Exhibit A hereto. The City hereby acknowledges, covenants and warrants that:

(i) it shall not pay from Net Revenues of the Wastewater Enterprise either (A) the Installment Payments Attributable to the Water Enterprise, (B) the Water Enterprise's Allocable Share of Operation and Maintenance Costs, or (C) any other amounts payable hereunder or under the Indenture, including Reserve Fund replenishment or other payments to the Insurer, if such amounts constitute the Water Enterprise's Allocable Share, and

(ii) it shall not pay from Net Revenues of the Water Enterprise either (A) the Installment Payments Attributable to the Wastewater Enterprise, (B) the Wastewater Enterprise's Allocable Share of Operation and Maintenance Costs, or (C) any other amounts payable hereunder or under the Indenture, including Reserve Fund replenishment or other payments to the Insurer, if such amounts constitute the Wastewater Enterprise's Allocable Share.

(c) Deposit of Gross Revenues into Utility Funds; Transfers to Make Installment Payments. The City has previously established the Utility Funds, which the City shall continue to hold and maintain for the purposes and uses set forth herein. The City shall deposit all Gross Revenues from the Water Enterprise into the Water Fund, and all of the Gross Revenues from the Wastewater Fund Enterprise into the Wastewater Fund, immediately on receipt. The City shall apply amounts in the respective Utility Funds as set forth in this Installment Sale Agreement and any Parity Obligation Documents. The City shall apply amounts on deposit in the respective Utility Funds to pay when due the following amounts in the following order of priority:

- (i) all Operation and Maintenance Costs of the respective Enterprise;
- (ii) the Allocable Shares of Installment Payments of the respective Enterprise and all payments of principal of and interest on any respective Parity Obligations;
- (iii) to the Trustee, the amount of any deficiency in the Reserve Fund established for the Enterprise Revenue Bonds and in any reserve fund established for Parity Obligations caused by the applicable Enterprise, the notice of which deficiency has been given to the City in accordance with the Indenture and the related Parity Obligation Documents, respectively;
- (iv) any other payments required to comply with the provisions of this Installment Sale Agreement and any respective Parity Obligations Documents; and
- (v) any other purposes authorized under subsection (e) of this Section 4.5.

(d) No Preference or Priority. Payment of the Installment Payments and the principal of and interest on any Parity Obligations shall be made without preference or priority. If the amount of Gross Revenues on deposit in a respective Utility Fund is any time insufficient to enable the City to pay when due the respective Allocable Share of Installment Payments and the principal of and interest on any applicable Parity Obligation, such payments will be made on a pro rata basis.

(e) Other Uses Permitted. The City shall manage, conserve and apply the amounts on deposit in the Utility Funds in such a manner that all deposits required to be made under the preceding subsection (c) will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the City may use and apply moneys in the Utility Funds for (i) the payment of any respective subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the respective Enterprise, (iii) the prepayment of any other obligations of the City relating to the Enterprises, or (iv) any other lawful purposes of the City.

Section 4.6. Special Obligation of the City; Obligations Absolute. The City's obligation to pay the Installment Payments, the Additional Payments and any other amounts coming due and payable hereunder shall be a special obligation of the City limited solely to the Net Revenues. Under no circumstances shall the City be required, obligated or liable 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 and the Additional Payments, nor shall any other funds or property of the City be liable for the payment of the Installment Payments and the Additional Payments and any other amounts coming due and payable hereunder.

Subject to the preceding paragraph, the obligations of the City to make the Installment Payments and the Additional Payments from the Net Revenues and to perform and observe the other agreements contained herein 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 either the Water Enterprise or the Wastewater Enterprise, as applicable, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority. 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 or such other amounts, (b) will perform and observe all other agreements contained in this Installment Sale Agreement, and (c) will not terminate the Term of this 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 either the Water Enterprise or the Wastewater Enterprise, as applicable, sale of either the Water Enterprise or the Wastewater Enterprise, as applicable, the taking by eminent domain of title to or temporary use of any component of the either the Water Enterprise or the Wastewater Enterprise, as applicable, commercial frustration of purpose, any change in the tax or law 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 this Installment Sale Agreement.

Nothing contained in this Section 4.6 shall be construed to release the Authority or the Trustee from the performance of any of the agreements on its part contained herein 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 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 proceedings if the City shall so request.

Section 4.7. Rates and Charges.

(a) Covenant to Maintain Water Revenues. The City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from the Water Enterprise sufficient to pay 100% of the following amounts in the following order of priority:

- (i) all Operation and Maintenance Costs of the Water Enterprise estimated by the City to become due and payable in such Fiscal Year;
- (ii) the Installment Payments Attributable to the Water Enterprise during such Fiscal Year;

(iii) all other payments required for compliance with this Indenture and the instruments pursuant to which any Parity Obligations relating to the Water Enterprise shall have been issued; and

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

In addition, the City shall fix, prescribe, revise and collect charges for the Water Enterprise during each Fiscal Year which are sufficient to yield Net Revenues of the Water Enterprise which, when added to other funds transferred from stabilization reserve funds for the Water Enterprise, and which are lawfully available to the City for payment of the items listed in clauses (ii) and (iii) above during such Fiscal Year, will aggregate an amount at least equal to one hundred twenty percent (120%) of the amounts payable under the preceding clauses (ii) and (iii) in such Fiscal Year for the Installment Payments Attributable to the Water Enterprise and any Parity Obligations which have a lien on such Net Revenues of the Water Enterprise.

(b) Covenant to Maintain Wastewater Revenues. The City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from the Wastewater Enterprise sufficient to pay 100% of the following amounts in the following order of priority:

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

(ii) the Installment Payments Attributable to the Wastewater Enterprise;

(iii) all other payments required for compliance with this Indenture and the instruments pursuant to which any Parity Obligations relating to the Wastewater Enterprise shall have been issued; and

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

In addition, the City shall fix, prescribe, revise and collect charges for the Wastewater Enterprise during each Fiscal Year which are sufficient to yield Net Revenues of the Wastewater Enterprise which, when added to other funds transferred from stabilization reserve funds for the Wastewater Enterprise, and which are lawfully available to the City for payment of the items listed in clauses (ii) and (iii) above during such Fiscal Year, will aggregate an amount at least equal to one hundred twenty percent (120%) of the amounts payable under the preceding clauses (ii) and (iii) in such Fiscal Year for the Installment Payments Attributable to the Wastewater Enterprise and any Parity Obligations which have a lien on such Net Revenues of the Wastewater Enterprise.

(c) Transfers from Rate Stabilization Fund. For purposes of this Section 4.7, the amount of Net Revenues or Gross Revenues of an Enterprise for a Fiscal Year will include amounts transferred into the Water Fund or the Wastewater Fund, as applicable, from the Rate Stabilization Fund during such Fiscal Year.

Section 4.8. Superior and Subordinate Obligations. As to each Enterprise, the City may not issue or incur any additional bonds or other obligations during the Term of this Installment Sale Agreement having any priority in payment of principal or interest out of the respective Gross Revenues or Net Revenues over the respective Installment Payments. Nothing herein limits or affects the ability of the City to issue or incur (a) Parity Obligations under Section 4.9, or (b) Subordinate Obligations which are either unsecured or which are secured by an interest in such Net Revenues which is junior and subordinate to the pledge of and lien upon the respective Net Revenues established hereunder; *provided, however*, that such Subordinate Obligations shall not be subject to acceleration without the prior written consent of the Insurer.

Nothing contained herein shall limit the ability of the City to execute obligations payable from a lien on Net Revenues that is subordinate to the lien of Net Revenues for both Parity Obligations and Subordinate Obligations contained herein.

Section 4.9. Issuance of Parity Obligations. Except for obligations incurred to prepay or discharge the Installment Payments or any Parity Debt, the City may not issue or incur any Parity Obligations for an Enterprise during the Term hereof unless:

(a) No Event of Default has occurred and is continuing (unless such Event of Default shall be cured upon such issuance); and

(b) The City shall file with the Trustee a report of a Fiscal Consultant showing that for each of the five full Fiscal Years following the issuance of such Parity Obligations for the applicable Enterprise, the Net Revenues of the applicable Enterprise (excluding any amounts derived from a Rate Stabilization Fund) which the City is projected to receive in such Fiscal Year will be at least equal to 120% of Debt Service coming due in such Fiscal Year for the applicable Enterprise. In computing the amount of Net Revenues which are projected to be received in any Fiscal Year, such report may take into account any Additional Revenues which are projected to be received in such Fiscal Year for the applicable Enterprise.

Section 4.10. Additional Payments. In addition to the Installment Payments, the City shall pay when due all costs and expenses incurred by the Authority and the Trustee to comply with the applicable 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) and amounts payable to the federal government pursuant to Section 6.08 of the Indenture pertaining to the Enterprise Revenue Bonds, 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 Section 6.3 hereof or Section 8.06 of the Indenture, and all costs and expenses of the Authority's and Trustee's attorneys, auditors, engineers and accountants, all amounts due and owing the Insurer and all amounts due to the issuer of the Reserve Policy as set forth in Section 12.02 of the Indenture. The rights of the Trustee and the Insurer and the obligations of the City under this Section 4.10 shall survive the termination of this Installment Sale Agreement and any resignation or removal of the Trustee.

Section 4.11. Payment of Rebatable Amounts. The City agrees to furnish all information to, and cooperate fully with, the Authority, the Trustee and their respective officers, employees, agents and attorneys, in order to assure compliance with the applicable provisions of Section 6.08 of the Indenture. In the event

that the Authority or the Trustee shall determine, pursuant to Section 6.08 of 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 Enterprise Revenue Bonds) to make such payment, the Authority or the Trustee shall promptly notify the City of such fact. Upon receipt of any such notice, the City shall promptly pay to the United States of America from any source of legally available funds of the Water Enterprise or Wastewater Enterprise, as applicable, the amounts determined by the Authority or the Trustee to be due and payable to the United States of America under such Section 6.08.

ARTICLE V

MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

Section 5.1. Maintenance, Utilities, Budget, Taxes and Assessments. Throughout the Term of this Installment Sale Agreement, all improvement, repair and maintenance of the Enterprises shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all Operation and Maintenance Costs and other services supplied to the Enterprises, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, 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 Enterprises resulting from ordinary wear and tear. On or before the first day of each Fiscal Year, the City will file with the Trustee a budget setting forth the estimated Operation and Maintenance Costs of each of the Enterprises for such Fiscal Year. The Trustee shall not be required to review, and shall not be deemed to have knowledge of, the contents of such budget, it being understood that the Trustee shall receive and hold such budget as repository for examination and copying by any Owner at such Owner's expense.

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, the Trustee or the City, affecting the Enterprises 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 this 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.

Section 5.2. Operation of the Enterprises. The City covenants and agrees to operate each the Enterprises in an efficient and economical manner and to operate, maintain and preserve the Water Enterprise in good repair and working order. The City covenants that, in order to fully preserve and protect the priority and security of the Enterprise Revenue Bonds, the City shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the applicable Enterprises

which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien granted hereunder, or which may otherwise impair the ability of the City to pay the Installment Payments in accordance herewith.

Section 5.3. Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained, throughout the Term of this Installment Sale Agreement, but only if and to the extent available at reasonable cost from reputable insurers, a standard comprehensive general insurance policy or policies in protection of the Authority, the Trustee, the City, and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Enterprises. Said policy or policies shall provide coverage in such liability limits and shall be subject to such deductibles as shall be customary with respect to works and property of a like character. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of Section 5.5, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

Section 5.4. Casualty Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Installment Sale Agreement, but only in the event and to the extent available from reputable insurers at reasonable cost, casualty insurance against loss or damage to any improvements constituting any part of the Enterprises, covering such hazards as are customarily covered with respect to works and property of like character. Such insurance may be subject to deductible clauses which are customary for works and property of a like character. Such insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the City and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of Section 5.5, 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 Enterprises shall be Gross Revenues as to that applicable Enterprise and shall be used to repair, rebuild or replace such damaged or destroyed portion of the applicable Enterprise or otherwise as permitted by the Installment Sale Agreement.

Section 5.5. Insurance Premiums; Self-Insurance. The City shall pay or cause to be paid when due the premiums for all insurance policies required by this Installment Sale Agreement. The Trustee shall not be responsible for the sufficiency of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. In the event that any insurance required pursuant to Sections 5.3 or 5.4 shall be provided in the form of self-insurance, the City shall file with the Trustee annually, within ninety (90) days following the close of each Fiscal Year, a statement of an independent actuarial consultant identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the City, the City shall not be obligated to make any payment with respect to any insured event except from Net Revenues or from such reserves.

Section 5.6. Eminent Domain. Any amounts received as awards as a result of the taking of all or any part of either the Water Enterprise or the Wastewater Enterprise, as applicable, by the lawful exercise of eminent domain shall be set aside and shall be used for the acquisition or construction of improvements and

extension of the affected Enterprise or otherwise as permitted by this Installment Sale Agreement, and with respect to which the Trustee shall have a security interest.

Section 5.7. Records and Accounts. The City shall keep proper books of record and accounts of the Enterprises, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprises. 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 Enterprise Revenue Bonds, or their representatives authorized in writing. The City shall cause the books and accounts of the Enterprises to be audited annually by an Independent Certified Public Accountant, not more than two hundred seventy (270) 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.

Section 5.8. Private Activity Bond Limitation. The City and the Authority shall assure that the proceeds of the Enterprise Revenue Bonds are not so used as to cause the Enterprise Revenue 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.

Section 5.9. Maintenance of Tax-Exemption. The City and the Authority shall take all actions necessary to assure the exclusion of interest on the Enterprise Revenue Bonds from the gross income of the Owners of the Enterprise Revenue 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 Enterprise Revenue Bonds.

Section 5.10. Federal Guarantee Prohibition. The City and 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 the Enterprise Revenue Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Section 5.11. Continuing Disclosure. The City hereby 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 this Installment Sale Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be an Event of Default hereunder; however, any Participating Underwriter or any holder or beneficial owner of the Enterprise Revenue Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City to comply with its obligations under this Section 5.11.

Section 5.12. Report to California Debt Advisory Commission. In accordance with Section 6599.1(c) of the Government Code, the City shall notify the California Debt and Investment Advisory Commission by mail, postage prepaid, within ten (10) days if either (i) the Authority fails to pay principal and interest payable on the Enterprise Revenue Bonds pursuant to the Indenture on any scheduled payment date or (ii) funds representing all or a portion of the Reserve Requirement are withdrawn from the Reserve Fund to pay principal and interest payable pursuant to the Indenture.

Section 5.13. Indenture Covenants. The City hereby expressly acknowledges and agrees to undertake its covenants under the Indenture, including but not limited to, those requirements of Article XII of the Indenture, as if such covenants were made herein.

ARTICLE VI

DISCLAIMER OF WARRANTIES; ACCESS

Section 6.1. 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 this Installment Sale Agreement or the Indenture for the existence, furnishing, functioning or City's use of the Project.

Section 6.2. Access to the Enterprises. The City agrees that the Authority and the Trustee, and any duly authorized representative thereof, shall have the right (but not a duty or obligation) at all reasonable times to enter upon and to examine and inspect the Enterprises. The City further agrees that the Authority and the Trustee, and any duly authorized representative thereof, shall have such rights of access to the Enterprises as may be reasonably necessary to cause the proper maintenance of the Enterprises in the event of failure by the City to perform its obligations hereunder.

Section 6.3. Release and Indemnification Covenants. The City shall and hereby agrees to indemnify and save the Authority and the Trustee and their respective members, officers, agents, employees, successors and assigns harmless from and against all claims, losses, liabilities, costs, expenses and damages, including legal fees and expenses, to the extent arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Enterprises by the City, (b) any breach or default on the part of the City in the performance of any of its obligations under this 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 Enterprises, (d) any act or negligence of any sublessee of the City with respect to the Enterprises, (e) the Acquisition and Installation of the Project, (f) the presence on, under or about, or release from, the Enterprises of any substance, material or waste which is, or which becomes, regulated or classified as hazardous or toxic under State, federal or local law, (g) the offer, sale and issuance of the Enterprise Revenue Bonds, or (h) the acceptance or administration of the Indenture or this Installment Sale Agreement. No indemnification is made under this Section 6.3 or elsewhere in this Installment Sale Agreement for finally adjudicated willful misconduct or active or passive gross negligence by the Authority or the Trustee, or their respective members, officers, agents, employees, successors or assigns. The rights of the Trustee and the obligations of the City under this Section 6.3 shall survive the termination of this Installment Sale Agreement and any resignation or removal of the Trustee.

Section 6.4. Non-Liability of Authority for Enterprises 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 Enterprises.

ARTICLE VII

ASSIGNMENT, SALE, AMENDMENT AND DISCHARGE

Section 7.1. Assignment by the Authority. The Authority's rights (but none of its duties or obligations) under this Installment Sale Agreement, including the right to receive and enforce payment of the Installment Payments to be made by the City under this Installment Sale Agreement have been pledged and assigned to the Trustee pursuant to the Indenture, to which pledge and assignment the City hereby consents.

Section 7.2. Assignment by the City. Except as provided in Section 7.1, this Installment Sale Agreement may not be assigned by the City.

Section 7.3. Sale of Enterprises. The City will only sell, transfer or otherwise dispose of any of the facilities of the either the Water Enterprise or the Wastewater Enterprise, as applicable, or any real or personal property comprising a part of either the Water Enterprise or Wastewater Enterprises, as applicable, consistent with one or more of the following limitations:

(1) The City in its discretion may carry out such a sale, transfer or other disposition (each, as used in this section, a "transfer") if the facilities or property of either the Water Enterprise or the Wastewater Enterprise, as applicable, transferred are not material to the operation of either the Water Enterprise or the Wastewater Enterprise, as applicable, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of either the Water Enterprise or the Wastewater Enterprise, as applicable, or are no longer necessary, material or useful to the operation of either the Water Enterprise or the Wastewater Enterprise, as applicable; or

(2) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property of either the Water Enterprise or the Wastewater Enterprise, as applicable, transferred in any one Fiscal Year comprises no more than ten per cent (10%) of the total assets of either the Water Enterprise or the Wastewater Enterprise, as applicable; or

(3) The City in its discretion may carry out such a transfer if the City receives from the transferee an amount equal to the fair market value of the facilities or property of either the Water Enterprise or the Wastewater Enterprise, as applicable, transferred (as used in this subparagraph, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, with a willing buyer and a willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus) and if the proceeds of such transfer are used (i) to promptly prepay, or irrevocably set aside for the prepayment of, first the Parity Payments and, thereafter, the Subordinate Payments, and/or (ii) to provide for the cost of additions, betterments or improvements to either the Water Enterprise or the Wastewater Enterprise, as applicable; provided, that before any such transfer is made under this subparagraph, (A) the City shall obtain an Engineer's Report that upon such transfer and the use of the proceeds thereof as proposed by the City, the remaining facilities or property of either the Water Enterprise or the Wastewater Enterprise, as applicable, will retain their operational integrity and the estimated Net Revenues during each of the five (5) Fiscal Years next following the Fiscal Year in which the transfer is to occur will be at least equal to the estimated Coverage Requirement in each of such Fiscal Years, taking into account (w) the estimated reduction in Net Revenues resulting from such transfer, (x) the use of the proceeds of such transfer for the prepayment of first, the Parity Payments and

thereafter, the Subordinate Payments, (y) the estimated additional Gross Revenues from customers anticipated to be served by any additions, betterments or improvements to either the Water Enterprise or the Wastewater Enterprise, as applicable, financed by the portion of the proceeds received from such transfer, and (z) any other adjustment permitted in the preparation of an Engineer's Report under Section 4.9, or (B) the City shall obtain confirmation from the Rating Agencies to the effect that the ratings then in effect will not be reduced or withdrawn upon such transfer.

Section 7.4. Amendment of Installment Sale Agreement. The City and the Authority shall have the right to modify or amend this 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 Enterprise Revenue 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 Enterprise Revenue Bonds or the owners of any Parity Obligations 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 Section 4.9;
- (b) to add to the covenants and agreements of the City contained in this 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, the Trustee 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 Code.

All other amendments, supplements, modifications to, or waiver of, this Installment Sale Agreement shall require the written consent of Owners of a majority in aggregate principal amount of all Enterprise Revenue Bonds then Outstanding, and shall be subject to the prior written consent of the Insurer.

Section 7.5. Discharge of Obligations.

(a) If the City shall pay or cause to be paid all the Installment Payments at the times and in the manner provided herein, including all amounts owed to the Insurer hereunder or under the Indenture, the right, title and interest of the Authority herein and the obligations of the City hereunder shall thereupon cease, terminate become void and be completely discharged and satisfied.

(b) Any unpaid principal installment of the Installment Payments shall on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the City makes payment of such Installment Payments and the prepayment premium, if applicable, as well as all amounts owed to the Insurer hereunder or under the Indenture, in the manner provided herein.

(c) All or any portion of unpaid principal installments of the Installment Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (i) notice is provided by the City to the Trustee as required by the Indenture, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient or Permitted Investments (as that term is defined in the Indenture) of the type described in clause (i) of the definition of Permitted Investments and which are not subject to redemption prior to maturity, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the principal installments of such Installment Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto, (iii) all amounts owed to the Insurer hereunder or under the Indenture have been paid to the Insurer, and (iv) an opinion of nationally recognized bond counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the interest on the Enterprise Revenue Bonds to be includable in gross income under the Code for federal income tax purposes.

(d) After the payment of all Installment Payments and prepayment premiums, if any, as provided in this section, and payment of all fees and expenses of the Trustee, the Trustee, upon request of the City, shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and the Authority and shall execute and deliver to the City and the Authority all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of this Installment Sale Agreement, and the Trustee shall pay over and deliver to the City, as an overpayment of Installment Payments, all such money or investments held by it pursuant hereto other than such money and such investments as are required for the payment or prepayment of the Installment Payments, which money and investments shall continue to be held by the Trustee in trust for the payment of the Installment Payments and shall be applied by the Trustee pursuant to the Indenture.

ARTICLE VIII

EVENTS OF DEFAULT

Section 8.1. Events of Default Defined. The following events shall be Events of Default hereunder:

(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 30 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 60 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority, the Insurer 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 60-day period, such failure shall not constitute an event of default hereunder if the City shall commence to cure such failure within such sixty (60) 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 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.

Section 8.2. 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, subject to all of the rights of the Insurer set forth in Article XII of the Indenture, at its option and without any further demand or notice, to take any one or more of the following actions:

(a) Declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the Overdue Rate 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. Notwithstanding the foregoing provisions of this subsection (a), however, if, at any time after the principal components of the unpaid Installment Payments have been so declared due and payable under this subsection (a), and before any judgment or decree for the payment of the moneys due has been obtained or entered, the City deposits 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 Overdue Rate, 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) have been made good, then, and in every such case, the Trustee will rescind and annul such declaration and its consequences. However, no such rescission and annulment extends to or affects any subsequent default, or impairs or exhausts any right or power consequent thereon. As provided in Section 8.6, the Trustee is required to exercise the remedies provided herein in accordance with the Trust Agreement;

(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 this Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under this 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.

Section 8.3. 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 this 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 this Article VIII it shall not be necessary to give any notice, other than such notice as may be required in this Article VIII or by law.

Section 8.4. Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Installment Sale Agreement should default under any of the provisions hereof and the nondefaulting party, the Trustee or the Owner of any Enterprise Revenue 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.

Section 8.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Installment Sale Agreement should 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.

Section 8.6. Trustee and Bond Owners to Exercise Rights. Such rights and remedies as are given to the Authority under this Article VIII have been assigned by the Authority to the Trustee under the Indenture, to which assignment the City hereby consents. Such rights and remedies shall be exercised by the Trustee, subject to all of the rights of the Insurer set forth in Article XII of the Indenture, and the Owners of the Enterprise Revenue Bonds as provided in the Indenture.

Section 8.7. Rights of the Owners of Parity Obligations. Notwithstanding anything in this Article VIII to the contrary, it is hereby acknowledged and agreed that the rights of the Trustee, the Insurer, the provider of the Reserve Policy and the Bond Owners hereunder in and to the Net Revenues and either the Water Enterprise or the Wastewater Enterprise, as applicable, 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 this Article VIII, and the provisions of any instruments authorizing the issuance of any Parity Obligations, shall be construed in accordance with the foregoing sentence.

ARTICLE IX

PREPAYMENT OF INSTALLMENT PAYMENTS

Section 9.1. Security Deposit. Notwithstanding any other provision of this Installment Sale Agreement, the City may on any date secure the payment of Installment Payments in whole or in part by irrevocably depositing with the Trustee an amount of cash which, together with amounts on deposit in the Installment Revenue Fund, the accounts therein and the Reserve Fund, is either (a) sufficient to pay all such Installment Payments, including the applicable principal and interest components thereof, in accordance with the Installment Payment schedule set forth in Exhibit A, or (b) invested in whole or in part in non-callable

Defeasance Obligations in such amount as will, in the written opinion of an Independent Certified Public Accountant, addressed to the Authority, the Insurer and the Trustee, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Installment Payments when due pursuant to Section 4.4(a) or when due on any optional prepayment date pursuant to Section 9.2, as the City shall instruct at the time of said deposit. In the event of a security deposit pursuant to this Section 9.1 with respect to all of the Installment Payments, and provided that other amounts due and payable by the City hereunder have been paid in full, all obligations of the City under this Installment Sale Agreement, and all security provided by this Installment Sale Agreement for said obligations, shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all of such Installment Payments from such security deposit, and the obligation of the City to compensate and indemnify the Trustee pursuant to Sections 4.10 and 6.3. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Installment Payments in accordance with the provisions of this Installment Sale Agreement.

Section 9.2. Optional Prepayment. The City may exercise its option to prepay the principal components of the Installment Payments in whole, or in part on any date on which the Enterprise Revenue Bonds are subject to optional prepayment under Section 4.01.1(b) of the Indenture. Such option shall be exercised by payment of a prepayment price equal to the sum of (a) the aggregate principal components of the Installment Payments to be prepaid, (b) the interest component of the Installment Payment required to be paid on or accrued to such date, and (c) the premium (if any) then required to be paid upon the corresponding prepayment of the Enterprise Revenue Bonds under Section 4.01.1(b) of the Indenture. The Trustee will deposit such prepayment price in the Installment Payment Fund to be applied to the prepayment of Enterprise Revenue Bonds under Section 4.01.1(b) of the Indenture. If the City prepays the Installment Payments in part but not in whole, the principal components will be prepaid among such maturities and in such integral multiples of \$5,000 as the City designates in written notice to the Trustee. The City shall give the Trustee and the Insurer written notice of its intention to exercise its option not less than forty-five (45) days in advance of the date of exercise.

Section 9.3. Mandatory Prepayment from Net Proceeds. The City shall be obligated to prepay the Installment Payments in whole or in part on any Installment Payment Date pursuant to Section 4.01.1(c) of the Indenture from Net Proceeds of any insurance or condemnation award theretofore to the extent required to be used to prepay Enterprise Revenue Bonds and Parity Obligations pursuant to this Installment Sale Agreement or pursuant to the Indenture; and

Except in the case of such prepayment of the Installment Payments in full, such payment shall be in addition to the Installment Payment required to be paid by the City on the next Installment Payment Date. Prepayment of Enterprise Revenue Bonds pursuant to this Section shall be made on a pro rata basis based on the original principal amount of each series of the Enterprise Revenue Bonds and any Parity Obligations, to the extent then outstanding.

Section 9.4. Credit for Amounts on Deposit. In the event of prepayment of the principal components of the Installment Payments in full under this Article IX, such that the Indenture with respect to the Enterprise Revenue Bonds shall be discharged by its terms as a result of such prepayment, and upon payment in full of all Additional Payments and other amounts then due and payable hereunder, all available amounts then on deposit in the funds and accounts established under the Indenture shall be credited towards the amounts then required to be so prepaid.

ARTICLE X

MISCELLANEOUS

Section 10.1. Further Assurances. The City agrees that it will execute and deliver any and all such further agreements, instruments, financing statements or other assurances as may be reasonably necessary or requested by the Authority, the Insurer or the Trustee to carry out the intention or to facilitate the performance of this Installment Sale Agreement, including, without limitation, to perfect and continue the security interests herein intended to be created.

Section 10.2. Amendment of Indenture. The Authority covenants that it shall take no action to amend or supplement the Indenture in any manner without obtaining the prior written consent of the City to such amendment or supplement.

Section 10.3. Notices. Any notice, request, complaint, demand or other communication under this Installment Sale Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy, telex or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon confirmed transmission by telecopy, telex or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City, the Insurer or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the City:	City of Mount Shasta 305 N. Mt. Shasta Boulevard Mount Shasta, CA 96067 Attention: City Manager Fax: (530) ____ - ____
If to the Authority:	Mount Shasta Public Financing Authority 305 N. Mt. Shasta Boulevard Mount Shasta, CA 96067 Attention: Executive Director Fax: (530) ____ - ____
If to the Trustee:	U.S. Bank National Association Corporate Trust Services _____, Suite ____ San Francisco, CA 94104 Fax: (415) ____ - ____ Email:

If to the Insurer:

See Section 12.02(p) of the Indenture

Section 10.4. Third Party Beneficiaries. The Trustee and the Insurer shall be and are each hereby made an express third party beneficiary hereunder with all rights of a third party beneficiary.

Section 10.5. Governing Law. This Installment Sale Agreement shall be construed in accordance with and governed by the laws of the State.

Section 10.6. Binding Effect. This Installment Sale Agreement shall inure to the benefit of and shall be binding upon the Authority and the City, and their respective successors and assigns, subject, however, to the limitations contained herein.

Section 10.7. Severability of Invalid Provisions. If any one or more of the provisions contained in this Installment Sale Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Installment Sale Agreement and such invalidity, illegality or unenforceability shall not affect any other provision of this Installment Sale Agreement, and this Installment Sale Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority and the City each hereby declares that it would have entered into this Installment Sale Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Installment Sale Agreement may be held illegal, invalid or unenforceable.

Section 10.8. Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Installment Sale Agreement. All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Installment Sale Agreement; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Installment Sale Agreement as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 10.9. Execution of Counterparts. This Installment Sale Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 10.10. Waiver of Personal Liability. No member of the City Council, officer, agent or employee of the City shall be individually or personally liable for the payment of Installment Payments or Additional Payments or be subject to any personal liability or accountability by reason of this Installment Sale Agreement; but nothing herein contained shall relieve any such member of the City Council, officer, agent or employee of the City from the performance of any official duty provided by law or by this Installment Sale Agreement.

[Signature page to follow on next page]

IN WITNESS WHEREOF, the Authority and the City have caused this Installment Sale Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

MOUNT SHASTA PUBLIC FINANCING

AUTHORITY

By: _____
Margaret Silveira, Executive Director

Attest:

By: _____

CITY OF MOUNT SHASTA, CALIFORNIA

By: _____
Nicholas Walker, Finance Director

Attest:

By: _____

EXHIBIT A

SCHEDULE OF INSTALLMENT PAYMENTS*

<u>Installment Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Installment Payment</u>
04/1/2019			
10/1/2019			
04/1/2020			
10/1/2020			
04/1/2021			
10/1/2021			
04/1/2022			
10/1/2022			
04/1/2023			
10/1/2023			
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04/1/2034			
10/1/2034			
04/1/2035			
10/1/2035			
04/1/2036			
10/1/2036			
Totals			

*The City shall remit each Installment Payment not less than five (5) Business Days prior to each Installment Payment Date during the Term of this Installment Sale Agreement, commencing not less than five (5) Business Days prior to April 1, 2020.

EXHIBIT B

DESCRIPTION OF PROJECT

The Project includes the installation and equipping of photovoltaic power generation facilities, as well as interior and exterior high efficiency Light Emitting Diode (LED) lighting. The scope of work will include engineering, equipment, installation, interconnection to utility, system start-up, and commissioning necessary to design and build the Project. The City expects the Project to reduce energy costs of the Enterprise. The City has entered an agreement (the “JCI Contract”) with **Engie Services U.S. Inc., a Delaware Corporation** (“JCI”), under which JCI will perform or cause to be performed the work in connection with the Project. The scope of work set forth in the JCI Contract pertaining to the Project is incorporated herein by this reference.

RECORDING REQUESTED BY:)
City of Mount Shasta)
)
WHEN RECORDED MAIL TO:)
The Weist Law Firm)
20 South Santa Cruz Avenue, Suite 300)
Los Gatos, California 95030)
Attn: Cameron A. Weist, Esq.)
)

(DO NOT WRITE ABOVE LINE - SPACE FOR RECORDERS USE ONLY)

THIS IS A FINANCING DOCUMENT RECORDED FOR THE BENEFIT OF THE CITY OF MOUNT SHASTA. THIS TRANSACTION IS EXEMPT FROM DOCUMENTARY TRANSFER TAX PURSUANT TO SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

ASSIGNMENT AGREEMENT

Dated as of October 1, 2019

by and between the

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

and

U.S. BANK NATIONAL ASSOCIATION

Relating to the

\$ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED

ASSIGNMENT AGREEMENT

THIS ASSIGNMENT AGREEMENT, dated as of October 1, 2019, is made by and between the MOUNT SHASTA PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing under the laws of the State of California (the "Authority") and U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee"), under the Indenture hereinafter defined. City and WW Treatment Plant Solar Project

WITNESSETH:

WHEREAS, the Authority has entered into a Site and Facilities Lease, dated as of October 1, 2019 (the "Site Lease"), with the City of Mount Shasta, California (the "City"), whereby the Authority has agreed to lease certain real property and facilities located within the City, as described in Exhibit A attached hereto (the "Leased Property"), from the City; and

WHEREAS, the Authority has entered into a Lease Agreement, dated as of October 1, 2019 (the "Lease"), with the City, whereby the Authority has agreed to lease the Leased Property to the City; and

WHEREAS, under and pursuant to the Lease, the City is obligated to make Base Rental Payments as defined therein, to the Authority for the lease of the Leased Property; and

WHEREAS, the Base Rental Payments have been pledged by the Authority as security for the payment of principal of and interest on its Series 2019 Lease Revenue Refunding Bonds (the "Bonds"), authorized and issued pursuant to an Indenture, dated as of October 1, 2019 (the "Indenture"), by and between the Authority and the Trustee; and

WHEREAS, in order to make the Bonds marketable on terms acceptable to the Authority, the Authority desires to assign and transfer its rights under the Lease and the Site Lease to the Trustee for the benefit of the Owners of the Bonds; and

WHEREAS, each of the parties has authority to enter into this Assignment Agreement, and has taken all actions necessary to authorize its respective officers to execute it.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and conditions contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions.

All capitalized terms used herein without definition shall have the meanings given to such terms in the Indenture or the Lease, as appropriate.

Section 2. Assignment.

The Authority does hereby assign and transfer to the Trustee all of the Authority's rights, title and interest in and to (but none of its obligations under) the Lease and the Site Lease (excepting only (i) the

Authority's rights to give approvals and consents thereunder, including, without limitation, to amendments, and the Authority's rights to the payment of Additional Rental Payments pursuant to Section 3(b) of the Lease and to indemnification pursuant to Section 15 of the Lease, and (ii) the Authority's rights to receive lease payments other than the Base Rental Payments), including the Authority's rights to receive Base Rental Payments, as well as its rights to enforce payment of such Base Rental Payments when due or otherwise to protect its interests in the event of a default by the City under the Lease, in accordance with the terms thereof, in trust nonetheless, and provided that should the Authority well and truly perform all of its obligations under the Indenture, this Assignment Agreement shall terminate and all interest in the Lease and the Site Lease shall revert to the Authority. The Base Rental Payments shall be applied, and the rights of the Authority assigned hereunder shall be exercised by the Trustee, as provided in the Indenture.

Section 3. Acceptance.

The Trustee hereby accepts the assignments made herein for the purpose of securing, equally and proportionately, the payments due pursuant to the Lease, Site Lease and Indenture to, and the rights under the Lease, Site Lease and Indenture of, the Owners of the Bonds delivered pursuant to the Indenture, all subject to the provisions of the Indenture.

Section 4. No Additional Rights or Duties.

Excepting only the assignment and transfer of rights to the Trustee pursuant to Section 2 hereof, this Assignment Agreement shall not confer any rights nor impose any duties, obligations or responsibilities upon the Trustee beyond those expressly provided in the Lease, the Site Lease and the Indenture. The Trustee does not warrant the accuracy of any of the recitals hereto. This Assignment Agreement shall not impose any duties, obligations or responsibilities upon the Authority or the City beyond those expressly provided in the Lease, the Site Lease and the Indenture or as otherwise set forth herein.

Section 5. Substitution or Release.

Upon the substitution or release of Leased Property subject to the Lease Agreement by the City and the Authority pursuant to Section 7 of the Lease, the Leased Property subject to this Assignment Agreement shall be modified to the same extent, and the Authority and the Trustee shall execute and cause to be recorded corrective instruments reflecting such substitution or release.

Section 6. Further Assurances.

The Trustee will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Assignment Agreement, and for the better assuring and confirming to the Trustee the rights and obligations intended to be conveyed pursuant hereto.

Section 7. Law Governing.

This Assignment Agreement is made in the State of California under the Constitution and laws of the State of California and is to be so construed.

Section 8. Binding Effect; Successors.

This Assignment Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. Whenever in this Assignment Agreement any party is named or referred to, such reference shall be deemed to include such party's successors and assigns and all covenants and agreements contained in this Assignment Agreement by or on behalf of any party hereto shall bind and inure to the benefit of such party's successors and assigns whether so expressed or not.

Section 9. Counterparts.

This Assignment Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Signature page to follow on next page]

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

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

By _____
Bruce D. Pope, Executive Director

Attest:

By: _____
Kathryn M. Wilson, Secretary

U.S. Bank National Association, as Trustee

By: _____
Authorized Officer

EXHIBIT A

DESCRIPTION OF THE LEASED PROPERTY

ALL THAT CERTAIN REAL PROPERTY (ALONG WITH ALL IMPROVEMENTS, FIXTURES AND FACILITIES AT ANY TIME SITUATED THEREON) SITUATED IN THE CITY OF MOUNT SHASTA, COUNTY OF SISKIYOU, STATE OF CALIFORNIA, AND ANY IMPROVEMENTS THERETO, DESCRIBED AS FOLLOWS:

ALL CAPACITY ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA

COUNTY OF SISKIYOU

On _____, before me, _____,
(Date) (Name and Title of officer)

personally appeared _____,
(Name of person signing)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of officer

(Seal)

ALL CAPACITY ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA

COUNTY OF SAN FRANCISCO

On _____, before me, _____,
(Date) (Name and Title of officer)

personally appeared _____,
(Name of person signing)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of officer

(Seal)

§ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
SERIES 2019

BOND PURCHASE AGREEMENT

_____, 2019

Mount Shasta Public Financing Authority
305 N. Mt. Shasta Boulevard
Mount Shasta, California 96067

City of Mount Shasta
305 N. Mt. Shasta Boulevard
Mount Shasta, California 96067

Ladies and Gentlemen:

Hilltop Securities Inc. (the “**Underwriter**”) hereby offers to enter into this Bond Purchase Agreement (the “**Purchase Agreement**”) with you, the Mount Shasta Public Financing Authority (the “**Authority**”) and the City of Mount Shasta (the “**City**”), for the purchase by the Underwriter and the delivery by the Authority of the above-referenced Bonds (the “**Bonds**”). The proceeds of the Bonds will be used to: (i) finance the acquisition and installation of a new corporate yard garage and certain new solar and energy efficiency equipment and improvements located at the City’s Corporate Yard, City Hall, Police Station and Fire Station, (ii) finance the acquisition and installation of certain new solar and energy efficiency equipment and improvements located at the City’s Wastewater Treatment Plant; (iii) to purchase a debt service reserve surety policy (the “**Surety**”) for deposit in the Reserve Fund; and (iv) to pay costs incurred in connection with the issuance of the Bonds, including the premium for a municipal bond insurance policy (the “**Policy**”). This offer is subject to your acceptance prior to 11:59 p.m., California time, on the date hereof and if not so accepted will be subject to withdrawal by the Underwriter upon written notice delivered to the Authority and the City at any time prior to the acceptance thereof by the Authority and the City. Upon such acceptance, this Purchase Agreement shall be in full force and effect in accordance with its terms and shall be binding upon you and the Underwriter. All terms not defined herein shall have the meanings set forth in the Indenture, the Installment Sale Agreement or the Lease Agreement (each defined below).

The Authority and the City acknowledge and agree that: (i) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm’s-length commercial transaction among the City, the Authority and the Underwriter in which the Underwriter is acting solely as a principal and not as an agent of the Authority or the City and the Underwriter is not acting as a municipal advisor, financial advisor or fiduciary to the Authority or the City; (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to the Authority or the City with respect to the transaction contemplated by this Purchase Agreement and the discussions, undertakings or procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter has provided other services or is

currently providing other services to the Authority or the City on other matters); (iii) the only obligations the Underwriter has to the Authority and the City with respect to the transaction contemplated by this Purchase Agreement are expressly set forth in this Purchase Agreement; and (iv) the Authority and the City have consulted their own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent the Authority and the City have deemed appropriate. The Authority acknowledges that it has previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under Rule G-17 of the Municipal Securities Rulemaking Board (the “MSRB”).

1. Upon the terms and conditions and upon the basis of the representations herein set forth, the Underwriter hereby agrees to purchase from the Authority for offering to the public, and the Authority hereby agrees to sell and deliver to the Underwriter, all (but not less than all) of the \$ _____ aggregate principal amount of the Bonds to be dated the Closing Date, at a price of \$ _____, being the principal amount of the Bonds, plus/less original issue premium/discount of \$ _____, less an Underwriter’s discount of \$ _____.

The Bonds shall mature in the amounts and on the dates, and bear interest at the rates, set forth in Exhibit A hereto. The Bonds shall be as described in and shall be secured under and pursuant to an Indenture of Trust, dated as of October 1, 2019 (the “**Indenture**”), among the Authority, the City and _____, as trustee (the “**Trustee**”), substantially in the form previously submitted to the Underwriter with only such changes therein as shall be mutually agreed upon by the Authority, the City, the Trustee and the Underwriter.

The obligation of the Authority to pay the principal of and interest on the Bonds is a special obligation of the Authority, payable solely from Revenues (as defined in the Indenture), and certain other amounts held under the Indenture. Revenues consist primarily of Installment Payments made by the City to the Authority pursuant to the Installment Sale Agreement (as defined below) and Base Rental Payments made by the City to the Authority pursuant to the Lease Agreement (as defined below). The principal of and interest on the Bonds are not required to be paid from any other funds of the Authority, including any proceeds of any taxes, and does not constitute a debt or pledge of the faith and credit of the Authority or the State of California (the “**State**”) or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The scheduled payment of principal of and interest on the Bonds, when due will be guaranteed under the Policy to be issued concurrently with the delivery of the Bonds by _____ (the “**Insurer**”). The Insurer will also issue the Surety concurrently with the delivery of the Bonds.

The Authority and the City hereby ratify the use by the Underwriter of the Preliminary Official Statement, dated _____, 2019 relating to the Bonds (together with the cover page and all appendices thereto, and any supplements thereof, the “**Preliminary Official Statement**”), and authorizes the Underwriter to use and distribute the Preliminary Official Statement, the Official Statement (as defined below), the Indenture, the Installment Sale Agreement, dated as of October 1, 2019 (the “**Installment Sale Agreement**”), between the Authority and the City, the Site Lease, dated as of October 1, 2019 (the “**Site Lease**”), by and between the Authority and the City, the Lease Agreement, dated as of October 1, 2019 (the “**Lease Agreement**”), by and between the Authority and the City, the Assignment Agreement, dated as of October 1, 2019 (the “**Assignment Agreement**”), by and between the Authority and the Trustee, the Continuing Disclosure Certificate as required by Securities and Exchange Commission Rule 15c2-12, as amended (“**Rule 15c2-12**”), and substantially in the form attached as an appendix to the Official Statement, dated _____, 2019 (the “**Continuing Disclosure**”).

Certificate”), executed by the City and this Purchase Agreement, and all information contained therein, and all other documents, certificates and statements furnished by the Authority and the City to the Underwriter in connection with the offer and sale of the Bonds by the Underwriter. The Authority and the City have heretofore “deemed final” the Preliminary Official Statement within the meaning of Rule 15c2-12.

The City will undertake pursuant to the Continuing Disclosure Certificate to provide certain annual financial and operating information and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement. This undertaking will be entered into in order to assist the Underwriter in complying with the Rule 15c2-12.

2. The Underwriter agrees to offer all the Bonds to the public initially at the prices (or yields) set forth on the inside cover page of the Official Statement of the Authority pertaining to the Bonds, dated _____, 2019 (together with all appendices thereto, and with such changes therein and supplements thereto and as are consented to in writing by the Underwriter, and with the Preliminary Official Statement, are herein called the “**Official Statement**”). Subsequent to the initial public offering of the Bonds, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds subject to Section 5 hereof. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices. “Public Offering” shall include an offering to a representative number of institutional investors or registered investment companies, regardless of the number of such investors to which the Bonds are sold. The Underwriter agrees that prior to the time the final Official Statement relating to the Bonds is available, the Underwriter will send to any potential purchaser of the Bonds, upon the request of such potential purchaser, a copy of the most recent Preliminary Official Statement. Such Preliminary Official Statement shall be sent by first class mail or electronic distribution (or other equally prompt means) not later than the first business day following the date upon which each such request is received.

3. The Authority shall also deliver a sufficient number of copies of the Official Statement to enable the Underwriter to distribute a single copy of the Official Statement to any potential customer of the Underwriter requesting an Official Statement during the time period beginning when the Official Statement becomes available and ending on the End Date (defined below). The Authority shall deliver these copies to the Underwriter no later than the earlier of (i) seven (7) business days after the execution of this Purchase Agreement or (ii) one (1) business day prior to the Closing Date in order to permit the Underwriter to comply with Rule 15c2-12, and the applicable rules of the MSRB, with respect to distribution of the Official Statement. The Authority and City shall prepare the Official Statement, including any amendments thereto, in word-searchable PDF format as described in the MSRB’s Rule G-32 and shall provide the electronic copy of the word-searchable PDF format of the Official Statement to the Underwriter no later than one (1) business day prior to the Closing Date to enable the Underwriter to comply with MSRB Rule G-32. The Underwriter shall inform the City in writing of the End Date, and covenants to file the Official Statement with the MSRB on a timely basis.

The Official Statement, as of its date, as of the Closing Date (as defined herein) and as of the date of any update, amendment or supplement thereto as required hereby subsequent to the Closing, up to and including the date which is twenty-five (25) days following the end (the “**End Date**”) of the Underwriting Period (as hereinafter defined), will be correct and complete in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

If, after the date of this Purchase Agreement and until the earlier of (i) ninety (90) days after the end of the “underwriting period” (as defined in Rule 15c2-12) (the “**Underwriting Period**”), or (ii) twenty-five (25) days following the end of the Underwriting Period if the Official Statement is available to any person from the MSRB as contemplated by Rule 15c2-12(b)(4), any event shall occur or circumstance shall exist of which the Authority or the City have knowledge that would cause the Official Statement to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Authority or the City, as the case may be, shall notify the Underwriter (and for the purpose of this Section provide the Underwriter with such information as it may from time to time reasonably request), and, if in the opinion of the City, the Authority or the Underwriter such event or circumstance requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority and the City will, at their expense, supplement or amend the Official Statement in a form and manner jointly approved by the City, the Authority and the Underwriter and furnish to the Underwriter a reasonable number of copies of such supplement or amendment provided that the Underwriter agrees that it will promptly notify the Authority and the City of the end of the Underwriting Period.

4. At 8:30 a.m., Pacific Time, on _____, 2019, or at such other time or date as shall be agreed upon by the Underwriter, Authority and the City (such time and date being herein referred to as the “**Closing Date**”), the Authority will deliver to the Underwriter, at a location or locations to be designated by the Underwriter, the Bonds in book-entry form (all Bonds having had the CUSIP numbers assigned to them thereon), duly executed by an authorized officer of the Trustee as provided in the Indenture, and the other documents herein mentioned; and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 of this Purchase Agreement in immediately available funds (such delivery and payment being herein referred to as the “**Closing**”).

Upon initial issuance, the ownership of such Bonds shall be registered in the registration books kept by the Trustee in the name of Cede & Co., as the nominee of The Depository Trust Company.

It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to provide such numbers nor any error with respect thereto shall constitute a cause for failure or refusal by the Underwriter to accept delivery of the Bonds in accordance with the terms of this Purchase Agreement.

5. A. The Underwriter agrees to assist the Authority in establishing the issue price of the Bonds and shall execute and deliver to the Authority at Closing an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit B, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the Authority and Bond Counsel (as defined herein), to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds.

B. The Authority will treat the first price at which 10% of each maturity of the Bonds (the “**10% test**”) is sold to the public as the issue price of that maturity. At or promptly after the execution of this Purchase Agreement, the Underwriter shall report to the Authority the price or prices at which it has sold to the public each maturity of Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the Authority the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until either (i) the Underwriter

has sold all Bonds of that maturity or (ii) the 10% test has been satisfied as to the Bonds of that maturity, provided that, the Underwriter's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the Authority or Bond Counsel. For purposes of this Section, if Bonds mature on the same date but have different interest rates, each separate CUSIP number within that maturity will be treated as a separate maturity of the Bonds.

The Underwriter will advise the Authority promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

C. The Underwriter confirms that:

(i) any selling group agreement and any third-party distribution agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such third-party distribution agreement, as applicable:

(A)(i) to report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Underwriter that the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be reasonable periodic intervals or otherwise upon request of the Underwriter and (ii) to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter,

(B) to promptly notify the Underwriter of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(C) to acknowledge that, unless otherwise advised by the dealer or broker-dealer, the Underwriter shall assume that each order submitted by the dealer or broker-dealer is a sale to the public.

(ii) any selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Underwriter or the dealer that the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the Underwriter or the dealer, and (B) comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter or the dealer and as set forth in the related pricing wires.

E. The Authority acknowledges that, in making the representation set forth in this section, the Underwriter will rely on (i) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and (ii) in the event that a third-

party distribution agreement was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The Authority further acknowledges that the Underwriter shall not be liable for the failure of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement, to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds.

F. The Underwriter acknowledges that sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below) shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

a. “public” means any person other than an underwriter or a related party;

b. “underwriter” means (A) any person that agrees pursuant to a written contract with the Authority (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public);

c. a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

d. “sale date” means the date of execution of this Purchase Agreement by all parties.

6. The Underwriter represents to and agrees with the Authority and the City that, as of the date hereof and as of the Closing Date:

(i) The Underwriter is duly authorized to execute this Purchase Agreement and to take any action under this Purchase Agreement required to be taken by it;

(ii) The Underwriter is in compliance with MSRB Rule G-37 with respect to the Authority and the City, and is not prohibited thereby from acting as the underwriter with respect to securities of the Authority and the City; and

(iii) The Underwriter has, and has had, no financial advisory relationship, as that term is defined in California Government Code Section 53590 (c) or MSRB Rule G-32, with the City with respect to the Bonds, and no investment firm controlling, controlled by or under common control with such Underwriter have or has had any such financial advisory relationship.

7. The Authority represents, warrants and covenants to the Underwriter that:

(a) The Authority is a joint exercise of powers authority duly organized and validly existing pursuant to the laws of the State of California and has all necessary power and authority to enter into and perform its duties under the Indenture, the Installment Sale Agreement, the Site Lease, the Lease Agreement, the Assignment Agreement and this Purchase Agreement (collectively, the “**Authority Documents**”) and, when executed and delivered by the respective parties thereto, the Authority Documents will constitute the legal, valid and binding obligations of the Authority in accordance with their respective terms.

(b) Neither the execution and delivery of the Authority Documents, or the approval and execution of the Official Statement, and compliance with the provisions on the Authority’s part contained therein, nor the consummation of any other of the transactions herein and therein contemplated, nor the fulfillment of the terms hereof and thereof, conflicts with or constitutes a breach of or default under nor contravenes any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, nor does any such execution, delivery, adoption or compliance result in the security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Authority Documents.

(c) Except as may be required under blue sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory authority having jurisdiction over the Authority required for the execution and delivery of the Bonds or the consummation by the Authority of the other transactions contemplated by the Official Statement and this Purchase Agreement.

(d) To the best of the knowledge of the Authority, there is, and on the Closing there will be, no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Authority to restrain or enjoin the delivery of any of the Bonds, or the payments to be made pursuant to the Indenture, or in any way contesting or affecting the validity of the Authority Documents or of the Authority to enter into the Authority Documents or contesting the powers of the Authority to perform its obligations under any of the foregoing or in any way contesting the powers of the Authority in connection with any action contemplated by this Purchase Agreement, or in any way questioning or challenging the tax status of the Bonds.

(e) As of the date thereof and at all times subsequent thereto up to and including the End Date, the information relating to the Authority contained in the Official Statement will be complete and will not contain any untrue or misleading statement of a material fact or omit to state any material fact (unless an event occurs of the nature described in Section 7(j) below) necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

As of its date, the information relating to the Authority and the Bonds contained in the Official Statement is true and correct in all material respects and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(f) The Authority agrees to cooperate with the Underwriter in endeavoring to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the Authority will not be required to execute a special or general consent to service of process in any jurisdiction in which it is not now so subject or to qualify to do business as a foreign agency in any jurisdiction where it is not so qualified.

(g) By official action of the Authority prior to or concurrently with the execution hereof, the Authority has duly approved the distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained in the Authority Documents and the consummation by it of all other transactions contemplated by the Official Statement and this Purchase Agreement.

(h) The Authority is not in breach of or default under any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument.

(i) The Authority is not in default, nor has been in default at any time, as to the payment of principal or interest with respect to an obligation issued by the Authority or successor of the Authority or with respect to an obligation guaranteed by the Authority as guarantor or successor of a guarantor.

(j) If between the date of this Purchase Agreement and the End Date an event occurs, of which the Authority has knowledge, which might or would cause the information relating to the Authority or the Authority's functions, duties and responsibilities contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the Authority will notify the Underwriter, and if, in the opinion of the Underwriter or the Authority, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will cooperate with the Underwriter in the preparation of an amendment or supplement to the Official Statement in a form and in a manner approved by the Underwriter or the Authority, provided all expenses thereby incurred will be paid for by the Authority.

(k) If the information relating to the Authority, its functions, duties and responsibilities contained in the Official Statement is amended or supplemented pursuant to the immediately preceding subsection, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subsection) at all times subsequent thereto up to and including the date of the Closing, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated

therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

(l) No consent, approval, authorization or other action by a governmental or regulatory authority that has not been obtained is or will be required of the Authority for the delivery and sale of the Bonds or the consummation of the other transactions contemplated by this Purchase Agreement and the Official Statement, except as may be required under the state securities or blue sky laws in connection with the sale of the Bonds by the Underwriter.

(m) The Authority will deliver all opinions, Bonds, letters and other instruments and documents reasonably required by the Underwriter and this Purchase Agreement.

(n) Any certificate of the Authority delivered to the Underwriter shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein.

(o) Other than as described in the Official Statement, as of the time of acceptance hereof and as of the Closing the Authority does not and will not have outstanding any indebtedness which is secured by a lien on the Installment Payments or the Base Rental Payments superior to or on a parity with the lien of the Bonds thereon.

(p) Between the date of this Purchase Agreement and the date of Closing, the Authority will not, without the prior written consent of the Underwriter, and except as disclosed in the Official Statement, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, payable from the Net Revenues.

(q) The Authority is not presently and as a result of the execution of the Authority Documents and the sale of the Bonds will not be in violation of any debt limitation, appropriation limitation or any other provision of the California Constitution or statutes or any additional debt or similar provision of any bond, note, contract or other evidence of indebtedness to which the Authority is a party or to which the Authority is bound.

(r) The Authority will not knowingly take or omit to take any action, which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner other than as provided in the Authority Documents, unless otherwise required by law.

8. The City represents, warrants and covenants to the Underwriter that:

(a) The City is a general law city duly organized under the laws of the State of California, and has all necessary power and authority to enter into and perform its duties under the Installment Sale Agreement, the Site Lease, the Lease Agreement, the Indenture, the Continuing Disclosure Certificate, and this Purchase Agreement (collectively, the “**City Documents**”) and, when executed and delivered by the respective parties thereto, the City Documents will constitute the legal, valid and binding obligations of the City in accordance with their respective terms.

(b) Neither the execution and delivery of the City Documents, or the approval and execution of the Official Statement, and compliance with the provisions on the City’s part contained therein, nor the consummation of any other of the transactions herein and therein contemplated, nor the fulfillment of the terms hereof and thereof, conflicts with or constitutes a breach of or default under nor contravenes any law, administrative regulation, judgment, decree, loan agreement, indenture, bond,

note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor does any such execution, delivery, adoption or compliance result in the security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the City Documents.

(c) Except as may be required under blue sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory authority having jurisdiction over the City required for the execution and delivery of the Bonds or the consummation by the City of the other transactions contemplated by the Official Statement and this Purchase Agreement.

(d) To the best of the knowledge of the City, there is, and on the Closing there will be, no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the City to restrain or enjoin the delivery of any of the Bonds, or the payments to be made pursuant to the Installment Sale Agreement, the Lease Agreement and Indenture, or in any way contesting or affecting the validity of the City Documents or of the City to approve or enter into the City Documents, or in any way questioning or challenging the tax status of the Bonds.

(e) As of the date thereof and at all times subsequent thereto up to and including the End Date, the information relating to the City, the Bonds and the Wastewater System contained in the Official Statement will be complete and will not contain any untrue or misleading statement of a material fact or omit to state any material fact (unless an event occurs of the nature described in Section 8(j) below) necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. As of its date and as of the date hereof, the information relating to the City, the Bonds and the Wastewater System contained in the Official Statement is true and correct in all material respects and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(f) The City agrees to cooperate with the Underwriter in endeavoring to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the City will not be required to execute a special or general consent to service of process in any jurisdiction in which it is not now so subject or to qualify to do business as a foreign agency in any jurisdiction where it is not so qualified.

(g) By official action of the City prior to or concurrently with the execution hereof, the City has duly approved the distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents and the consummation by it of all other transactions contemplated by the Official Statement and this Purchase Agreement.

(h) The City is not in breach of or default under any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument.

(i) The City is not in default, nor has been in default at any time, as to the payment of principal or interest with respect to an obligation issued by the City or successor of the City or with respect to an obligation guaranteed by the City as guarantor or successor of a guarantor.

(j) If between the date of this Purchase Agreement and the End Date an event occurs, of which the City has knowledge, which might or would cause the information relating to the City, the Wastewater System or the City's functions, duties and responsibilities contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the City will notify the Underwriter, and if, in the opinion of the Underwriter or the Authority, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will cooperate with the Underwriter in the preparation of an amendment or supplement to the Official Statement in a form and in a manner approved by the Underwriter or the Authority, provided all expenses thereby incurred will be paid for by the City.

(k) If the information relating to the Wastewater System, the City, its functions, duties and responsibilities contained in the Official Statement is amended or supplemented pursuant to the immediately preceding subsection, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subsection) at all times subsequent thereto up to and including the date of the Closing, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

(l) The City covenants that it will comply with all tax covenants relating to it in the City Documents and the Tax Certificate of the City.

(m) The written information supplied by the City to the Underwriter with respect to the financial information relating to the Wastewater System is true, correct and complete in all material respects for the purposes for which it was supplied.

(n) No consent, approval, authorization or other action by a governmental or regulatory agency that has not been obtained is or will be required of the City for the delivery and sale of the Bonds or the consummation of the other transactions contemplated by this Purchase Agreement and the Official Statement, except for such licenses, certificates, approvals, variances or permits which may be necessary for the construction or operation of the Wastewater System which the City has applied for (or will apply for in the ordinary course of business) and expects to receive, and except as may be required under the state securities or blue sky laws in connection with the sale of the Bonds by the Underwriter.

(o) The City will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided in the Indenture and as described in the Official Statement, unless otherwise required by law.

(p) The City will deliver all opinions, certificates, letters and other instruments and documents reasonably required by the Underwriter and this Purchase Agreement.

(q) Any certificate of the City delivered to the Underwriter shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(r) Other than as described in the Official Statement, as of the time of acceptance hereof and as of the Closing, the City does not and will not have outstanding any indebtedness which is secured by a lien on the Net Revenues superior to or on a parity with the lien of the Bonds thereon.

(s) Between the date of this Purchase Agreement and the date of Closing, the City will not, without the prior written consent of the Underwriter, and except as disclosed in the Official Statement, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, payable from the Net Revenues.

(t) The City is not presently and as a result of the execution of the City Documents and the sale of the Bonds will not be in violation of any debt limitation, appropriation limitation or any other provision of the California Constitution or statutes or any additional debt or similar provision of any bond, note, contract or other evidence of indebtedness to which the City is a party or to which the City is bound.

(u) Based on a review of its previous undertakings, the City has not, in the last five years, failed to comply in any material respect with its obligations under any continuing disclosure undertaking entered into pursuant to Rule 15c2-12 except as disclosed in the Official Statement. The City will undertake, pursuant to the Continuing Disclosure Certificate to provide annual reports and notices of certain events in accordance with the requirements of Rule 15c2-12.

9. The Underwriter has entered into this Purchase Agreement in reliance upon the representations, warranties and agreements of the Authority and the City contained herein, and the opinions of Bond Counsel, Counsel to the Trustee, City Attorney to the City and Counsel to the Authority required hereby. The Underwriter's obligations under this Purchase Agreement are and shall be subject to the following further conditions:

(a) At the time of Closing, this Purchase Agreement, the Indenture, the Installment Sale Agreement, the Site Lease, the Lease Agreement, the Lease Agreement and the Continuing Disclosure Certificate (collectively the "**Legal Documents**"), all as described in the Official Statement, shall be in full force and effect as valid and binding agreements between or among the various parties thereto, and the Legal Documents and the Official Statement shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter, and there shall be in full force and effect such resolutions as, in the opinion of The Weist Law Firm ("**Bond Counsel**"), shall be necessary in connection with the transactions contemplated hereby.

(b) At or prior to the Closing, the Underwriter shall receive the following documents, in each case satisfactory in form and substance to them:

(1) The unqualified approving opinion of Bond Counsel, dated the date of Closing, addressed to the Authority, the City and the Underwriter (or a reliance letter to the Underwriter), in substantially the form attached as Appendix E to the Official Statement.

(2) A supplemental opinion of Bond Counsel, dated as of the date of Closing addressed to the Underwriter, in form and substance to the effect that:

(a) The statements and information contained in the Official Statement under the captions “INTRODUCTION,” “THE BONDS,” “SECURITY FOR THE BONDS,” “TAX MATTERS” and APPENDICES C and E to the extent they purport to summarize information concerning the Bonds and certain provisions of the Legal Documents and the opinion of such counsel, present a fair and accurate summary of such information and such provisions;

(b) The Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification as an Indenture pursuant to the Indenture Act of 1939, as amended; and

(c) The Purchase Agreement has been duly authorized, executed and delivered by the Authority and the City, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes legal, valid and binding agreement of the Authority and the City enforceable against each in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors’ rights generally and equitable remedies if equitable remedies are sought, and except no opinion need be expressed as to the enforceability of the indemnification, waiver, choice of law or contributions provisions contained in the Purchase Agreement.

(3) The opinion of The Weist Law Firm, Disclosure Counsel, dated the date of Closing and addressed to the Authority, the City and the Underwriter, in substantially the form attached hereto as Exhibit C.

(4) An opinion of Counsel to the Authority, dated the date of Closing in form and substance satisfactory to the Underwriter and Bond Counsel, addressed to the City and the Underwriter, to the effect that:

(i) the Authority is a joint powers authority duly organized and validly existing under the laws of the State of California;

(ii) the preparation and distribution of the Official Statement and the Authority Documents have been duly approved by the Authority;

(iii) the resolutions of the Authority approving and authorizing the execution and delivery of the Official Statement and the Authority Documents have been duly adopted at meetings of the governing body of the Authority which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and such resolutions have not been amended or modified and are in full force and effect;

(iv) there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel, threatened against or affecting the Authority, which would adversely impact the Authority’s ability to complete the transactions described in and contemplated by the Official Statement, to restrain or enjoin the payments under, or in any way contesting or affecting the validity of the Authority Documents, or the transactions described and defined

in the Official Statement wherein an unfavorable decision, ruling or finding would adversely affect the validity and enforceability of the Authority Documents;

(v) the execution and delivery of the Authority Documents and the approval of the Official Statement, and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach of or default under any agreement or other instrument to which the Authority is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Authority is subject;

(vi) the Authority Documents and the Official Statement have been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other parties thereto, the Authority Documents constitute legal, valid and binding agreements of the Authority enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against public agencies in the State of California;

(vii) no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California is required for the valid authorization, execution and delivery of the Authority Documents and the approval of the Official Statement; and

(viii) nothing has come to their attention which would lead them to believe that the information relating to the Authority contained in the Official Statement contains an untrue statement or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(5) An opinion of Counsel to the City, dated the date of Closing in form and substance satisfactory to the Underwriter and Bond Counsel, addressed to the Authority and the Underwriter, to the effect that:

(i) the City is a general law city created in accordance with the laws of the State of California;

(ii) the preparation and distribution of the Official Statement and the City Documents have been duly approved by the City;

(iii) the resolutions of the City approving and authorizing the execution and delivery of the Official Statement and the City Documents have been duly adopted at meetings of the governing body of the City which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and such resolutions have not been amended or modified and are in full force and effect;

(iv) there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel, threatened against or affecting the City, which would adversely impact the City's ability to complete the transactions described in and contemplated by the Official Statement, to restrain or enjoin the payments under, or in any way contesting or affecting the validity of the City Documents, or the transactions described and defined in the Official Statement wherein an unfavorable decision, ruling or finding would adversely affect the validity and enforceability of the City Documents;

(v) the execution and delivery of the City Documents and the approval of the Official Statement, and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach of or default under any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject;

(vi) the City Documents and the Official Statement have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the other parties thereto, the City Documents constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against public agencies in the State of California;

(vii) no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California is required for the valid authorization, execution and delivery of the City Documents and the approval of the Official Statement;

(viii) the City's charges and fees with respect to the Wastewater System were duly approved and adopted by the City, and are valid and enforceable at the current levels levied by the City; and

(ix) nothing has come to the City Attorney's attention which would lead such attorney to believe that the information relating to the City or the Wastewater System contained in the Official Statement contains an untrue statement or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(6) The opinion of counsel to the Trustee, dated the date of Closing in form and substance satisfactory to the Underwriter and Bond Counsel, and addressed to the Authority, the City and the Underwriter, to the effect that:

(i) the Trustee is a national banking association duly organized and validly existing under the laws of the United States;

(ii) the Trustee has duly authorized the execution and delivery of the Indenture;

(iii) the Indenture has been duly entered into and delivered by the Trustee and assuming due, valid and binding authorization, execution and delivery by the other parties thereto, constitutes the legal, valid and binding obligation of the Trustee enforceable against the Trustee in accordance with its terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally, or by general principles of equity;

(iv) the Trustee has duly authenticated and delivered the Bonds in its capacity as trustee under the Indenture;

(v) acceptance by the Trustee of the duties and obligations under the Indenture and compliance with provisions thereof will not conflict with or constitute a breach of or default under any law or administrative regulation to which the Trustee is subject; and

(vi) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the performance by the Trustee of its duties and obligations under the Indenture have been obtained and are in full force and effect.

(7) An opinion, dated the date of the Closing and addressed to the Underwriter, of Nixon Peabody LLP, counsel to the Underwriter ("**Underwriter's Counsel**"), in such form as may be acceptable to the Underwriter.

(8) A certificate, dated the date of Closing, signed by a duly authorized official of the Authority satisfactory in form and substance to the Underwriter and Bond Counsel, (a) confirming as of such date the representations and warranties of the Authority contained in this Purchase Agreement; (b) certifying that the Authority has complied with all agreements, covenants and conditions to be complied with by the Authority at or prior to the Closing under the Authority Documents; and (c) certifying that to the best of such official's knowledge, no event affecting the Authority has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing the statements or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading in any material respect.

(9) A certificate or certificates, dated the date of Closing, signed by a duly authorized official of the City satisfactory in form and substance to the Underwriter and Bond Counsel, (a) confirming as of such date the representations and warranties of the City contained in this Purchase Agreement; (b) certifying that the City has

complied with all agreements, covenants and conditions to be complied with by the City at or prior to the Closing under the City Documents; and (c) certifying that to the best of such official's knowledge, no event affecting the City has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing the statements or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading in any material respect.

(10) A certificate, dated the date of the Preliminary Official Statement, signed by a duly authorized official of the Authority deeming the Preliminary Official Statement "final" for purposes of Rule 15c2-12.

(11) A certificate, dated the date of the Preliminary Official Statement, signed by a duly authorized official of the City deeming the Preliminary Official Statement "final" for purposes of Rule 15c2-12.

(12) An executed or certified copy of each of the Legal Documents.

(13) A certificate dated as of the date of Closing of a duly authorized officer of the City to the effect that each included resolution is a true, correct and complete copy of the one duly adopted by the Board of Directors of the City and that none have been amended, modified or rescinded since adoption (except as reflected in said transcript or as may have been agreed to in writing by the Underwriter) and is in full force and effect as of the date of Closing.

(14) A certificate dated as of the date of Closing of a duly authorized officer of the Authority to the effect that each included resolution is a true, correct and complete copy of the one duly adopted by the Board of Directors of the Authority and that none have been amended, modified or rescinded since adoption (except as reflected in said transcript or as may have been agreed to in writing by the Underwriter) and is in full force and effect as of the date of Closing.

(15) An executed copy of the Official Statement.

(16) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers of the Trustee, which resolution authorizes the execution and delivery of documents such as the Bonds and the Indenture.

(17) A Certificate of the City evidencing that the insurance required by the Installment Sale Agreement and the Lease Agreement has been procured and is in full force and effect.

(18) Tax certifications by the Authority and the City in form and substance acceptable to Bond Counsel.

(19) A Certificate of the Trustee, dated the Closing Date to the effect that:

(i) the Trustee is duly organized and existing as a national banking association in good standing under the laws of the United States, having the full power and authority to accept and perform its duties under the Indenture;

(ii) subject to the provisions of the Indenture, the Trustee will apply the proceeds from the Bonds to the purposes specified in the Indenture;

(iii) the Trustee has duly authorized and executed the Indenture; and

(iv) the Trustee has duly authenticated and delivered the Bonds in its capacity as trustee under the Indenture.

(20) Evidence that the Bonds have been given the ratings set forth in the Official Statement and that such ratings continue in effect as of the date of Closing.

(21) The Policy, duly executed by the Insurer.

(22) The Surety, duly executed by the Insurer.

(23) An opinion of counsel to the Insurer, dated the Closing Date, addressed to the Authority and the Underwriter, in form and substance satisfactory to the Underwriter and Bond Counsel.

(24) A certificate or certificates of the Insurer, dated the Closing Date, as to the accuracy of the information relating to the Insurer, the Policy and the Surety included in the Official Statement and such other matters reasonably requested by the Underwriter and Bond Counsel.

(25) Evidence that a federal tax information form 8038-G has been prepared for filing with respect to the Bonds.

(26) A copy of the Notice of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 8855 of the California Government Code.

(27) Such additional legal opinions, certificates, proceedings, instruments and other documents as Bond Counsel, the Underwriter and Underwriter's Counsel may reasonably request to evidence compliance with legal requirements, the truth and accuracy, as of the time of Closing, of the representations contained herein and in the Official Statement and the due performance or satisfaction by the Trustee and the Authority at or prior to such time of all agreements then to be performed and all conditions then to be satisfied.

(c) All matters relating to this Purchase Agreement, the Bonds and the sale thereof, the Legal Documents and the consummation of the transactions contemplated by this Purchase Agreement shall have been approved by the Underwriter, such approval not to be unreasonably withheld.

If the conditions to the Underwriter's obligations contained in this Purchase Agreement are not satisfied or if the Underwriter's obligations shall be terminated for any reason permitted by this

Purchase Agreement, this Purchase Agreement shall terminate and none of the Underwriter, the City nor the Authority shall have any further obligation hereunder.

10. The Underwriter shall have the right to terminate this Purchase Agreement, without liability therefore, by written notification to the Authority and the City if at any time at or prior to the Closing:

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

(ii) Legislation shall be enacted by or introduced in the Congress of the United States or recommended to the Congress for passage by the President of the United States, or the Treasury Department of the United States or the Internal Revenue Service or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a court of the United States or of the State or the United States Tax Court shall be rendered, or an order, ruling, regulation (final, temporary or proposed), press release, statement or other form of notice by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made or proposed, the effect of any or all of which would be to alter, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds, or the interest on the Bonds as described in the Official Statement, or other action or events shall have transpired which may have the purpose or effect, directly or indirectly, of changing the federal income tax consequences of any of the transactions contemplated herein; or

(iii) Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering, or sale of obligations of the general character of the Bonds, as contemplated hereby or by the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect; or

(iv) A general suspension of trading in securities on the New York Stock Exchange or any other national securities exchange, the establishment of minimum or maximum prices on any such national securities exchange, the establishment of material restrictions (not in force as of the date hereof) upon

trading securities generally by any governmental authority or any national securities exchange, or any material increase of restrictions now in force (including, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter); or

(v) A general banking moratorium shall have been established by federal, New York or California authorities; or

(vi) Establishment of any new restrictions in securities materially affecting the free market for securities of the same nature as the Bonds (including the imposition of any limitations on interest rates); or

(vii) The occurrence of an adverse event in the affairs of the Authority or the City which, in the reasonable opinion of the Underwriter, materially impairs the investment quality of the Bonds; or

(viii) Any amendment to the federal or California Constitution or action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the Authority or the City, its property, income or securities (or interest thereon), or the ability of the City to execute the Installment Sale Agreement or the Lease Agreement or the Authority to issue the Bonds and pledge the Revenues as contemplated by the Indenture and the Official Statement; or

(ix) There shall have occurred any (1) new material outbreak of hostilities (including, without limitation, an act of terrorism) or (2) new material other national or international calamity or crisis, or any material adverse change in the financial, political or economic conditions affecting the United States, including, but not limited to, an escalation of hostilities that existed prior to the date hereto; or

(x) There shall have occurred any materially adverse change in the affairs or financial position, results of operations or condition, financial or otherwise, of the Authority or the City, other than changes in the ordinary course of business or activity or in the normal operation of the Authority or the City, except as described in the Official Statement; or

(xi) Any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or the Official Statement, or results in the Preliminary Official Statement or the Official Statement containing any untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or

(xii) An event described in Section 7(j) or 8(j) hereof shall have occurred which, in the reasonable professional judgment of the Underwriter,

requires the preparation and publication of a supplement or amendment to the Official Statement; or

(xiii) Any rating of the Bonds or other obligations of the Insurer by a national rating agency shall have been withdrawn or downgraded or placed on negative outlook or negative watch; or

(xiv) Any rating of the Bonds or other obligations of the Authority or the City by a national rating agency shall have been withdrawn or downgraded or placed on negative outlook or negative watch.

11. Performance by the Authority and the City of their respective obligations under this Purchase Agreement is conditioned upon (i) performance by the Underwriter of its obligations hereunder, and (ii) receipt by the Underwriter of all opinions and certificates to be delivered at Closing by persons and entities other than the Authority or the City.

12. After the Closing and until the End Date if any event relating to or affecting the Authority or the City shall occur as a result of which it is necessary, in the opinion of the Underwriter or the Authority, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to an initial purchaser of the Bonds, the Authority will forthwith prepare and furnish to the Underwriter a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to an initial purchaser of the Bonds, not misleading. The costs of preparing any necessary amendment or supplement to the Official Statement to be utilized until the End Date shall be borne by the Authority and any costs incurred thereafter incident to amending or supplementing the Official Statement shall be borne by the Underwriter. For the purposes of this Section, the Authority will furnish such information with respect to itself as the Underwriter may from time to time request.

13. (a) The Underwriter shall be under no obligation to pay, and the City or Authority shall pay or cause to be paid out of the proceeds of the Bonds, all expenses incident to the performance of the Authority's and City's obligations hereunder, including but not limited to: the cost of photocopying and delivering the Bonds to the Underwriter; the cost of preparing, printing (and/or word processing and reproducing), distributing and delivering the City Documents and the Authority Documents, and the cost of printing, distributing and delivering the Preliminary Official Statement and the Official Statement in such reasonable quantities as requested by the Underwriter; the premiums with respect to the Policy and the Surety; and the fees and disbursements of Bond Counsel, Disclosure Counsel, the Municipal Advisor, any accountants, municipal advisors or other engineers or experts or consultants the Authority or the City have retained in connection with the Bonds and expenses (included in the expense component of the Underwriter's spread) incurred on behalf of the Authority or City officers or employees which are incidental to implementing this Purchase Agreement, including, but not limited to, meals, transportation, and lodging of those officers or employees.

(b) Whether or not the Bonds are delivered to the Underwriter as set forth herein, neither the Authority nor the City shall be under any obligation to pay, and the Authority and City shall not pay, any expenses incurred by the Underwriter in connection with its public offering and distribution of the Bonds (except those specifically enumerated in subsection (a) of this section),

including any advertising expenses and the fees of the California Debt and Investment Advisory Commission, the cost of preparation of any “blue sky” or legal investment memoranda, and the fees and disbursements of Underwriter’s Counsel.

The Authority and the City acknowledge that the Underwriter will pay from the underwriter’s expense allocation of the underwriting discount certain fees, including the applicable per bond assessment charged by the California Debt and Investment Advisory Commission.

14. Any notice or other communication to be given to the Underwriter may be given by delivering the same to Hilltop Securities Inc. 2533 South Coast Hwy., Suite 250, Cardiff, California 92007; Attention: Mike Cavanaugh. Any notice or other communication to be given to the Authority or the City may be given by delivering the same to addresses initially provided herein, Attention: Executive Director with respect to the Authority and Attention: City Manager with respect to the City. The approval of the Underwriter when required hereunder or the determination of satisfaction as to any document referred to herein shall be in writing signed by the Underwriter and delivered to you.

15. This Purchase Agreement is made solely for the benefit of the Authority, the City and the Underwriter (including the successors or assigns thereof) and no other person shall acquire or have any right hereunder or by virtue hereof.

16. This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which such counterparts shall together constitute but one and the same instrument.

17. The representations and warranties of the Authority and the City set forth in or made pursuant to this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Purchase Agreement and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and warranties of the Authority and the City and regardless of delivery of and payment for the Bonds.

18. The primary role of the Underwriter, as underwriter, is to purchase the Bonds for resale to investors in an arms-length commercial transaction among the City, the Authority and the Underwriter. The Underwriter, as underwriter, has financial and other interests that differ from those of the Authority and the City.

19. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the Authority, the City and the Underwriter, and shall be valid and enforceable as of the time of such acceptance.

20. This Purchase Agreement shall be governed by the laws of the State of California. This Purchase Agreement shall not be assigned by either party hereto.

21. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understandings between the parties hereto in relation to the sale of Bonds by the Authority and the City and represents the entire agreement of the parties as to the subject matter herein.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

22. Any provision of this Purchase Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Purchase Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

HILLTOP SECURITIES INC.

By: _____
Authorized Signatory

The foregoing is hereby agreed to and accepted as of the date first above written:

MOUNT SHASTA PUBLIC FINANCING AUTHORITY

By: _____
Authorized Officer

Time of Execution: _____ p.m. California time

CITY OF MOUNT SHASTA

By: _____
Authorized Officer

Time of Execution: _____ p.m. California time

S-1

Signature Page of Bond Purchase Agreement relating to
Mount Shasta Public Financing Authority
Series 2019 Revenue Bonds
(City and WW Treatment Plant Solar Project)

EXHIBIT A

\$ _____
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)

<u>Maturity</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>10% Test</u> <u>Satisfied*</u>	<u>10% Test</u> <u>Not</u> <u>Satisfied</u>	<u>Subject to</u> <u>Hold-The-</u> <u>Offering-</u> <u>Price Rule</u>
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EXHIBIT B

§ _____
**MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)**

FORM OF ISSUE PRICE CERTIFICATE

The undersigned, on behalf of Hilltop Securities Inc. (“Hilltop”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Bonds”) of Mount Shasta Public Financing Authority (the “Issuer”).

1. ***Sale of the General Rule Maturities.*** As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. ***Reserve Fund.*** With respect to the debt service reserve fund for the Bonds, the funding of the debt service reserve fund at the level it was funded was reasonably required to market the Bonds at the interest rates at which they were marketed, and funding a reserve fund for a lesser amount would have resulted in a sale of the Bonds at materially higher interest rates or for a materially lower purchase price.

3. ***Credit Enhancement.***

(i) the present value of the amounts paid to obtain the bond insurance policy (the “Insurance Policy”) guaranteeing the payment of the principal of and interest on the insured Bonds, issued by Build America Mutual Assurance Company (the “Insurer”) and the reserve surety bond (the “Reserve Policy”) provided by the Insurer, respectively, are less than the present value of the interest reasonably expected to be saved as a result of having the Insurance Policy and the Reserve Policy, respectively, using the yield on the Bonds as the discount factor for this purpose;

(ii) to the best knowledge of the undersigned, the amounts paid by the Issuer to the Insurer for the Insurance Policy and the Reserve Policy for the Bonds, respectively, are within a reasonable range of premiums charged for comparable credit enhancement for obligations comparable to the obligation evidenced and represented by such Bonds;

(iii) the fees paid and to be paid to obtain the Insurance Policy and the Reserve Policy with respect for the Bonds, respectively, were determined in arm's-length negotiations and were required as a condition to the issuance by the Insurer; and

(iv) to the best of knowledge of the undersigned, the fees paid and to be paid for the Insurance Policy and the Reserve Policy for the Bonds represent a commercially reasonable charge for the transfer of credit risk, such fees do not include any direct or indirect payment for a cost, risk or other element that is not customarily borne by guarantors of tax-exempt bonds in transactions in which the guarantor has no involvement other than as guarantor, and no non-guarantee services are being provided by the Insurer.]

4. ***Defined Terms.***

(a) ***General Rule Maturities*** means those Maturities of the Bonds listed in Schedule A hereto as the “General Rule Maturities.”

(b) *Hold-the-Offering-Price Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

(c) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which Hilltop sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.

(d) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(e) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(f) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is _____, 2019.

(h) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Hilltop’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the tax certificate with respect to the Bonds and with respect to compliance with the federal income tax rules affecting the Bonds, and by The Weist Law Firm in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

HILLTOP SECURITIES INC.

By: _____

Name: _____

Title: _____

Dated: _____

EXHIBIT C

FORM OF DISCLOSURE COUNSEL OPINION LETTER

Mount Shasta Public Financing Authority
Mount Shasta, California

City of Mount Shasta
Mount Shasta, California

Hilltop Securities Inc.
Cardiff, California

Re: \$ _____ Mount Shasta Public Financing Authority Series 2019 Revenue Bonds
 (City and WW Treatment Plant Solar Project)

Ladies and Gentlemen:

We have acted as Disclosure Counsel to the City of Mount Shasta, California (the “City”) and the Mount Shasta Public Financing Authority (the “Authority”) in connection with the issuance by the Authority of its Revenue Bonds (Wastewater Treatment Facility) Series 2019 (the “Bonds”). The Bonds are authorized under Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and the Joint Exercise of Powers Agreement, dated as of May 13, 2019, between the City and the Mount Shasta Industrial Development Authority. The Bonds are being issued pursuant to the provisions of an Indenture of Trust, dated as of October 1, 2019 (the “Indenture”), by and among the Authority, the City and _____, as trustee (the “Trustee”). The terms and provisions of the Bonds are contained in the Indenture and are further described in the Official Statement relating to the Bonds, dated _____, 2019 (the “Official Statement”). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Official Statement or the Indenture, as applicable.

In rendering this opinion, we have reviewed the Indenture and such records, documents, certificates and opinions, and made such other investigations of law and fact as we have deemed necessary or appropriate. This opinion is limited to matters governed by the federal securities law of the United States of America, and we assume no responsibility with respect to the applicability or effect of the laws of any other jurisdiction.

In our capacity as Disclosure Counsel, we have rendered certain assistance to the City and the Authority in connection with the preparation of the Preliminary Official Statement, dated as of _____, 2019 (the “Preliminary Official Statement”), and the Official Statement. Rendering such assistance involved discussions and inquiries concerning certain matters, review of certain documents and proceedings, and participation in meetings and telephone conferences with representatives of the City and the Authority, counsel to the City and the Authority, the Municipal Advisor, the Underwriter and counsel to the Underwriter, during which meetings and telephone conferences the contents of the Preliminary Official Statement, the Official Statement and related matters were discussed. On the basis of the information made available to us in the course of the foregoing (but without having undertaken to determine or verify independently, or assuming any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement or the Official Statement), no facts have come to the attention of the personnel in our firm directly involved in rendering legal advice and assistance

in connection with the preparation of the Preliminary Official Statement or Official Statement which cause us to believe that: (a) the Preliminary Official Statement as of its date or as of _____, 2019 (excluding therefrom financial, engineering and statistical data; CUSIP numbers, forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to The Depository Trust Company, Cede & Co. and the operation of the book-entry system; and the information in Appendices B, C, and D to the Official Statement, as to all of which we express no view, and except for such information as is permitted to be excluded from the Preliminary Official Statement pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, including but not limited to information as to pricing, yields, interest rates, maturities, amortization, redemption provisions, debt service requirements, underwriter's discount and CUSIP numbers) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or (b) the Official Statement as of its date and as of the date hereof (excluding therefrom financial, engineering and statistical data; CUSIP numbers, forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to The Depository Trust Company, Cede & Co. and the operation of the book-entry system; and the information in Appendices B, C, and D to the Official Statement, as to all of which we express no view) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In rendering such advice we conducted no independent diligence on the Electronic Municipal Market Access website and express no view regarding the City's or the Authority's compliance with any obligation to provide notice of the events described in part (b)(5)(i)(C) of Rule 15c2-12 or to file annual reports described in part (b)(5)(i)(A) of Rule 15c2-12.

During the period from the date of the Official Statement to the date of this opinion, except for our review of the certificates and opinions regarding the Preliminary Official Statement and the Official Statement delivered on the date hereof, we have not undertaken any procedures or taken any actions which were intended or likely to elicit information concerning the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement or the Official Statement.

We are furnishing this opinion to the City and the Authority, solely for their benefit. This opinion is rendered in connection with the transaction described herein, and may not be relied upon by the City or the Authority for any other purpose. This opinion shall not extend to, and may not be used, circulated, quoted, referred to, or relied upon by, any other person, firm, corporation or other entity without our prior written consent. The delivery of this opinion shall not create any attorney-client relationship between our firm and the addressees hereof, other than the City and the Authority. Our engagement with respect to this matter terminates upon the delivery of this opinion to the City and the Authority at the time of the issuance of the Bonds, and we have no obligation to update this opinion.

Respectfully submitted,

NEW ISSUE – BOOK-ENTRY ONLY

INSURED RATING: S&P: “ ”
 UNDERLYING RATING: S&P: “ ”
 (See “RATINGS” herein)

In the opinion of The Weist Law Firm, Los Gatos, California, Bond Counsel, under existing statutes, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described more fully herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and such interest is not an item of tax preference for purposes calculating the federal alternative minimum tax imposed under the Code, and Bonds are “qualified tax-exempt obligations” within the meaning of section 265(b)(3) of the Code.. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

\$ _____*
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED

Dated: Date of Delivery

Due: August 1, as shown on the inside cover page

The above-captioned \$ _____ aggregate principal amount of Series 2019 Revenue Bonds (the “Bonds”) are being issued by the Mount Shasta Public Financing Authority (the “Authority”) pursuant to an Indenture of Trust, dated as of October 1, 2019 (the “Indenture”), by and among the City of Mount Shasta (the “City”), the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds will bear interest at the rate or rates shown on the Maturity Schedule set forth on the inside front cover hereof, payable semiannually on February 1 and August 1 of each year (each an “Interest Payment Date”), commencing February 1, 2020.

The Bonds initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for 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 Trustee. Upon receipt of payments of principal of and interest on the Bonds, DTC is obligated in turn to remit such principal and interest to the DTC Participants (as defined herein) for subsequent disbursement to purchasers of the Bonds, as described herein. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” hereto.

The Bonds are special obligations of the Authority payable from the Revenues (defined herein) pledged under the Indenture, consisting primarily of (i) base rental payments (the “Base Rental Payments”) to be made by the City to the Authority as rental for certain City-owned property (the “Leased Facilities”) under a lease agreement, dated as of October 1, 2019, by and between the Authority and the City (the “Lease Agreement”), and (ii) installment payments (the “Installment Payments,” and together with the Base Rental Payments, the “Local Obligation Payments”) to be made by the City under an installment sale agreement, dated as of October 1, 2019, by and between the Authority and the City (the “Installment Sale Agreement,” and together with the Lease Agreement, the “Local Obligations”). The Installment Payments are secured by a pledge of and lien on the net revenues of the City’s municipal wastewater enterprise (the “Enterprise”).

The City is required under the Lease Agreement to make Base Rental Payments in each year in consideration for the use and possession of the Leased Facilities from any source of legally available funds. The City’s obligation to make Base Rental Payments is subject to abatement in the event of substantial interference with the use and possession of all or a part of Leased Facilities. See “FINANCING PLAN” and “RISK FACTORS – Abatement” herein. The City has covenanted under the Lease Agreement to take such action as may be necessary to include and maintain all Base Rental Payments in its annual budget and to make the necessary appropriations therefor, subject to such abatement.

The Bonds are subject to optional, mandatory sinking account and extraordinary redemption prior to their stated maturities as described herein. See “THE BONDS – Redemption Provisions” herein.

The Bonds are being issued to (i) finance the acquisition and installation of a new corporate yard garage and solar facilities and related improvements, (ii) fund a debt service reserve fund for the Bonds [through the purchase of a reserve surety bond (as defined herein) for the Bonds], and (iii) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See “THE FINANCING PLAN” herein.

[The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by _____. See “BOND INSURANCE” herein.]

[Insurer’s Logo]

This cover page contains certain information for quick reference only. It is not a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the purchase of the Bonds.

MATURITY SCHEDULE
(See Inside Cover Page)

The Bonds are limited obligations of the Authority and are payable solely from, and are secured by a pledge of, Revenues and certain funds and accounts held under the Indenture. Neither the full faith and credit nor the taxing power of the State of California nor any of its political subdivisions is pledged to the payment of the principal of or interest on the Series Bonds. The Authority has no taxing power.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to approval as to their legality by The Weist Law Firm, Los Gatos, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by The Weist Law Firm, as Disclosure Counsel. Certain other legal matters will be passed on for the Authority and the City by the City Attorney of the City, and for the Underwriter Nixon Peabody LLP, Los Angeles, California, as Underwriter’s Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York on or about October __, 2019.

HILLTOP SECURITIES INC. [Logo]

Dated: October __, 2019

MATURITY SCHEDULE

\$ _____ *

**MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED**

(Base CUSIP[†] No.)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP[†]
-------------------------------------	-----------------------------	--------------------------	--------------	--------------	--------------------------

\$ _____ . ____ % Term Bond due August 1, 20__ Yield: . ____ % – Price: ____ . ____ % CUSIP[†] No. ____

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP® data herein is provided by CUSIP Global Services (“CGS”), managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. None of the Authority, the City or the Underwriter is responsible for the selection, uses or correctness of the CUSIP® numbers set forth herein. CUSIP® numbers have been assigned by an independent company not affiliated with the Authority, the City or the Underwriter and are included solely for the convenience of the registered owners of the applicable Bonds. The CUSIP® number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

c Priced to the first optional par call date of August 1, 20__.

MOUNT SHASTA PUBLIC FINANCING AUTHORITY
Mount Shasta, California

CITY COUNCIL / AUTHORITY BOARD

Barbara Wagner, *Mayor / Chair*
John Stackfleth, *Mayor Pro Tem / ViceChair*
Paul Engstrom, *Councilmember / Boardmember*
John Redmond, *Councilmember / Boardmember*
Jeffrey Collings, *Councilmember / Boardmember*

CITY / AUTHORITY STAFF

Bruce D. Pope, *City Manager / Executive Director*
Muriel Howarth Terrell, *Finance Director / Treasurer*
Rod Byran, *Public Works Director*
Kathryn M. Wilson, *Deputy City Clerk / Secretary*
John Kenny, *City Attorney / Authority Counsel*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

The Weist Law Firm
Los Gatos, California

Trustee

San Francisco, California

Underwriter

Hilltop Securities Inc.
Cardiff, California

In making an investment decision investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, neither the foregoing authorities nor Bond Counsel or Disclosure Counsel have confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to provide any information or to make any representations in connection with the offering or sale of the Bonds other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the City. 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. The preliminary Official Statement has been deemed final, as of its date, by the City for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. The City has also undertaken to provide continuing disclosure on certain matters including annual financial information and specific enumerated events, as more fully described herein under "CONTINUING DISCLOSURE."

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 matter 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. Words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority or the City.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of its responsibilities to investors under the federal securities laws applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made under the Indenture 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.

[_____ (the "Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Insurer supplied by Insurer and presented under the heading "BOND INSURANCE" and "APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" hereto.]

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

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

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OFFICIAL STATEMENT

§ _____ *

**MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS
(CITY AND WW TREATMENT PLANT SOLAR PROJECT)
BANK QUALIFIED**

This Official Statement, including its cover page, inside cover page and appendices, is provided to furnish information regarding the issuance by the Mount Shasta Public Financing Authority (the "Authority") of its \$ _____ aggregate principal amount of Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project) (the "Bonds").

The following introduction is not a summary of this Official Statement. The introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement, pursuant to which the offering of the Bonds to potential investors is exclusively made. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used but not defined in this Official Statement have the meanings given in the Lease Agreement, Installment Sale Agreement, and Indenture. No descriptions and summaries of documents contained in this Official Statement purport to be comprehensive or definitive, and reference is made to each document described or summarized for complete details of all its terms and conditions.

INTRODUCTION

In General

The Bonds are limited obligations of the Authority payable from the Revenues (defined herein) pledged under an Indenture of Trust, dated as of October 1, 2019 (the "Indenture"), by and between the Authority and _____, as trustee (the "Trustee"), consisting primarily of (i) installment payments (the "Installment Payments") to be made by the City of Mount Shasta, a municipal corporation and general law city (the "City") under an installment sale agreement, dated as of October 1, 2019, by and between the Authority and the City (the "Installment Sale Agreement"), and (ii) base rental payments (the "Base Rental Payments") to be made by the City under a lease agreement, dated as of October 1, 2019, by and between the Authority and the City (the "Lease Agreement," and together with the Installment Sale Agreement, the "Local Obligations").

Pursuant to the Indenture and the Assignment Agreement, dated as of October 1, 2019 (the "Assignment Agreement"), by and between the Authority and the Trustee, the Authority has transferred, conveyed and assigned to the Trustee, for the benefit of the Owners, substantially all of its rights under the Installment Sale Agreement and Lease Agreement, respectively, including the right to receive Installment Payments and Base Rental Payments, respectively, from the City and the right to exercise any respective remedies provided therein in the event of a default by the City thereunder.

*Preliminary, subject to change.

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584) (the “Bond Law”), a Resolution adopted by the Board of Directors of the Authority on September 23, 2019 (the “Authority Resolution”), a Resolution adopted by the City Council of the City on September 23, 2019 (the “City Resolution” and together with the Authority Resolution, the “Resolutions”), and the Indenture.

Purpose of the Bonds

The Bonds are being issued to (i) finance the acquisition and installation of a new corporate yard garage and certain new solar and energy efficiency equipment and improvements located at the City’s Corporate Yard, City Hall, Police Station and Fire Station (the “City Project”), (ii) finance the acquisition and installation of certain new solar and energy efficiency equipment and improvements located at the City’s Wastewater Treatment Plant (the “Wastewater Project,” and together with the City Project, the “Project”), (iii) fund a debt service reserve fund for the Bonds [through the purchase of a reserve surety bond (as defined herein) for the Bonds], and (iv) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See “THE FINANCING PLAN” herein.

The Authority

The Authority was created by a Joint Exercise of Powers Agreement, dated as of May 13, 2019 (the “Joint Exercise of Powers Agreement”), by and between the City and the Mount Shasta Industrial Development Authority pursuant to the provisions of the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”). The Authority was created for the primary purpose of facilitating the financing of public capital improvements and facilities for the City. See “THE AUTHORITY” herein.

The City

The City of Mount Shasta (the “City”) is located along Interstate 5 in the heart of Siskiyou County, California (the “County”). The City is located about 75 miles north of Redding, about 290 miles north of Sacramento, and about 85 miles south of Medford, Oregon. It is one of four incorporated cities in Siskiyou County and is a principal center for government, commerce and recreational interest in the County. The City encompasses approximately 3.8 square miles and has a resident population of approximately 3,283, with the County having a resident population of just over 44,584. It was incorporated in 1905 and operates as a general law city under the council-manager form of government. The City Council of the City is comprised of five elected council members served by a full-time City Manager and staff. Council members are elected at large for staggered four-year terms. The City Manager holds office for an indefinite term at the pleasure of the City Council. For other selected information concerning the City, see “THE CITY” and “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA” hereto.

The City’s audited financial statements for the Fiscal Year ended June 30, 2018 are included in Appendix B and should be read in their entirety. The report (the “Report”) of Aiello, Goodrich & Teuscher, an Accountancy Corporation, Mount Shasta, California (the “Auditor”) is included with the City’s financial statements. Other than as set forth in such Report, the Auditor has not reviewed or opined as to any part of this Official Statement.

The Wastewater Enterprise

The City provides wastewater service to approximately 1,942 wastewater accounts, representing approximately 6,214 equivalent dwelling units. Wastewater is conveyed through a collection system of sewers and lift stations (the “Wastewater Collection System”) to the City owned wastewater treatment plant and disposal facilities (the “Wastewater Treatment Facilities”) (together, the Wastewater Collection System and the Wastewater Treatment Facilities are referred to as the “Wastewater Enterprise” or “Enterprise”). See “THE WASTEWATER ENTERPRISE” herein.

Description of the Bonds

Payment. Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside front cover hereof at the principal corporate office of the Trustee. The Bonds will accrue interest from their date of delivery, and interest thereon will be payable semiannually on February 1 and August 1 of each year (each an “Interest Payment Date”), commencing February 1, 2020, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more, payable when due by wire of the Trustee to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See “THE BONDS – Book-Entry System” and “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” hereto.

Redemption. The Bonds are subject to optional, extraordinary and mandatory sinking account redemption prior to their stated maturity dates, as provided herein. See “THE BONDS – Redemption Provisions” herein.

Form of Bonds. The Bonds will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture. See “THE BONDS – General.” When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee. DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds purchased. See “THE BONDS – Book-Entry System” and “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” hereto.

Sources of Payment for the Bonds

In General. The Bonds are special obligations of the Authority, payable from and secured by a pledge of the Revenues (defined herein) primarily consisting of the Base Rental Payments and the Installment Payments, received by the Authority from the City under the respective Lease Agreement and Installment Sale Agreement, and from certain interest and other income derived from certain funds and accounts held under the Indenture (collectively, the “Revenues,” as more fully described herein). The Base Rental Payments and the Installment Payments, along with investment earnings, are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due.

Reserve Fund. A Reserve Fund (the “Reserve Fund”) is established with the Trustee pursuant to the Indenture in an amount equal to the Reserve Requirement (as defined herein). [The City will purchase a Municipal Bond Debt Service Reserve Insurance Policy (the “Reserve Surety”) from _____ (the “Insurer”) and deposit the Reserve Surety with the Trustee.] Amounts on deposit in the Reserve Fund will be applied to pay principal of and/or interest on the Bonds in the event amounts on deposit in the Interest Accounts, Principal Accounts or Sinking Accounts, respectively, are insufficient therefor. See “SECURITY FOR THE BONDS – Reserve Fund” herein.

Sources of Payment for the Installment Sale Agreement

In General. The Bonds are payable in part from the Installment Payments which, in turn, are payable solely from the Net Revenues of City’s Wastewater Enterprise. “Net Revenues” means, with respect to the Wastewater Enterprise for any period, all of the “Gross Revenues” received from the Enterprise during such period minus the amount required to pay all “Operation and Maintenance Costs” of the Enterprise which are payable during such period, all as described herein. See “SECURITY FOR THE BONDS – Applicable Definitions” for the definitions of Gross Revenues, Operation and Maintenance Costs, and a more detailed definition of the Wastewater Enterprise.

The Bonds are not secured by a lien on or a security interest in the Wastewater Enterprise. The Net Revenues of the Wastewater Enterprise are only pledged to payment of the Installment Payments. Neither the full faith and credit nor the taxing power of the City, the State of California (the “State”) nor any political subdivision of the State is pledged to the payment of the Installment Payments or the Bonds.

Existing Parity Obligations of the Wastewater Enterprise. The Installment Payments attributable to the Wastewater Enterprise are payable by the City on parity with (i) an obligation of the City under an installment sale agreement between the City and the California Infrastructure and Economic Development Bank, dated as of July 1, 2008 (the “2008 Installment Sale Agreement”), wherein the City agreed to make payments in the aggregate principal amount of \$1,750,000 (the “2008 Installment Payments”) for the purpose of refinancing certain improvements to the Wastewater Enterprise, which 2008 Installment Sale Agreement is currently outstanding in the principal amount of \$ _____, with a final payment due August 1, 2037; and (ii) an obligation of the City under an installment sale agreement between the City and the Authority entered into as of September 1, 2019 (the “2019 Installment Sale Agreement,” and together with the 2008 Installment Sale Agreement, the “Prior Obligations”), wherein the City agreed to make installment payments in the aggregate principal amount of \$1,309,000 (the “2019 Installment Payments”) for the purpose of financing certain improvements to the Wastewater Enterprise, which 2019 Installment Sale Agreement is currently outstanding in the principal amount of \$1,309,000, with a final payment due August 1, 2059. See “SECURITY RELATING TO THE INSTALLMENT SALE AGREEMENT – Issuance of Parity Obligations – Existing Parity Obligations” herein.

Future Parity Debt. The City may issue additional parity obligations of the Wastewater Enterprise, subject to certain conditions set forth in the Installment Sale Agreement. See “SECURITY RELATING TO THE INSTALLMENT SALE AGREEMENT – Issuance of Parity Obligations – Issuance of Future Parity Obligations” herein.”

Sources of Payment for the Lease Agreement

In General. The Bonds are payable in part from Base Rental Payments to be made by City to the Authority under the Lease Agreement. The City has covenanted in the Lease Agreement to take such action as may be necessary to include the Base Rental Payments and Additional Rental Payments in each of its annual budgets during the term of the Lease Agreement and has further covenanted to make the necessary annual appropriations for all such payments, as long as a portion of the City Project with fair rental value sufficient to support such Base Rental Payments and Additional Rental payments is available for the City's use. The Authority, pursuant to the Assignment Agreement, will assign its rights and remedies under the Lease Agreement to the Trustee for the benefit of the Owners of the Bonds, including its right to receive Base Rental Payments thereunder. See "SECURITY RELATING TO THE LEASE AGREEMENT" herein. *Neither the full faith and credit nor the taxing power of the City, the State or any political subdivision of the State is pledged to the payment of the Base Rental Payments or the Bonds.*

Except to the extent of amounts otherwise available to the City for payments under the Lease Agreement, during any period in which, by reason of material damage, destruction or condemnation there is substantial interference with the use by the City of any portion of the City Project, Base Rental Payments will be adjusted or abated in the proportion in which the value of that portion of the City Equipment rendered unusable bears to the entire value of the City Project. See "SECURITY FOR THE LEASE REVENUE BONDS – Abatement" herein.

Risk Factors

The purchase of the Bonds involves certain risks. For a general discussion of certain special factors and considerations relevant to an investment in the Bonds, in addition to the other matters set forth herein, see "RISK FACTORS" herein. The Bonds are not appropriate investments for investors who are not able to bear the associated risks. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Limited Obligations

The City's obligation to pay Installment Payments under the Installment Sale Agreement is a special obligation of the City limited solely to the Net Revenues of the Wastewater Enterprise. No other funds or property of the City are liable for the payment of the Installment Payments or any other amounts payable under the Installment Sale Agreement or the Indenture. The obligations of the City to make the Installment Payments and the Additional Installment Payments from the Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreement will be absolute and unconditional and will 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 or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee. The obligation of the City to pay Installment Payments and the Additional Installment Payments under the Installment Sale Agreement does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has pledged any form of taxation.

The obligation of the City to pay Base Rental Payments and Additional Rental Payments do not constitute a debt of the City, the County, the State or of any political subdivision thereof within the meaning

of any constitutional or statutory debt limitation or restriction. The obligation of the City to pay Base Rental Payments and Additional Rental Payments under the Lease Agreement does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has pledged any form of taxation.

The Bonds are special, limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of neither the Authority, the City nor the State or any of its political subdivisions is pledged for the payment of the Bonds. Neither the payment of the interest on or principal or redemption price of the Bonds constitutes a debt, liability or obligation of the Authority, the City nor the State or any of its political subdivisions for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

Continuing Disclosure

The City has covenanted, on behalf of itself and the Authority, for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City and the Wastewater Enterprise by not later than nine (9) months following the end of the City's Fiscal Year (which currently would be by March 31 each year based upon the June 30 end of the City's Fiscal Year), commencing with the report for the 2019-20 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material.

The City has covenanted to prepare and deliver the Annual Report and notices of certain material events to the Municipal Securities Rulemaking Board, via its Electronic Municipal Market Access ("EMMA") system. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein. See "CONTINUING DISCLOSURE" hereto.

Bond Insurance

[The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by _____. See "BOND INSURANCE" and "APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" hereto.]

Tax Matters

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, as amended (the "Code"), in the opinion of The Weist Law Firm, Los Gatos, California, as Bond Counsel, interest with respect to the Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the Bonds will be exempt from State personal income taxes. See "TAX MATTERS" herein.

Bank Qualified

The City has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of Code, which provides an exception to the prohibition against the ability of a "financial

institution” (as defined in the Code) to deduct certain of its interest expense allocable to tax-exempt interest. See “TAX MATTERS” herein.

Legal Opinion

Upon delivery of the Bonds, The Weist Law Firm, Los Gatos, California, Bond Counsel (“Bond Counsel”) will release its final approving legal opinion with respect to the Bonds, including the validity and tax status of the Bonds, in the form attached hereto as APPENDIX E.

Forward-Looking Statements

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,” “intend,” “expect,” “propose,” “estimate,” “project,” “budget,” “anticipate,” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. The presentation of information herein, including tables of receipt of revenues, is intended to show recent historical information and, except for budget discussions and certain other discussions pertaining to projected operating results, is not intended to indicate future or continuing trends in the financial position or other affairs of 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. See “RISK FACTORS – Accuracy of Assumptions” herein.

NO UPDATES OR REVISIONS TO THESE FORWARD-LOOKING STATEMENTS ARE EXPECTED TO BE ISSUED IF OR WHEN THE EXPECTATIONS, EVENTS, CONDITIONS, OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED CHANGE. THE FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.

Other Matters

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Furthermore, this Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale of the Bonds, under any circumstances, shall create any implication that there has been no change in the affairs of the City or the Wastewater Enterprise since the date of this Official Statement. 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 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.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See “APPENDIX A – SUMMARY OF LEGAL DOCUMENTS” hereto. The information set forth herein, other than that provided by the City, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness.

THE FINANCING PLAN

The City Project

A portion of the proceeds of the Bonds will be used to acquire, construct and equip the City Project, which generally consists of a new garage at the City’s corporation yard as well as certain energy efficiency equipment. The new garage will be constructed as a 45’ x 160’ rectangular steel structure with roof mounted solar. The new energy efficiency equipment being installed as part of the City Project includes the installation and equipping of photovoltaic power generation facilities, as well as interior and exterior high efficiency Light Emitting Diode (LED) lighting. The scope of work will include engineering, equipment, installation, interconnection to utility, undergrounding of overhead electrical, system start-up, and commissioning necessary to design and build the City Project. The City expects the City Project to reduce energy costs of the City. The City has entered into a contract (the “JCI Contract”) with Johnson Controls, Inc. (“JCI”), under which JCI will perform the work in connection with the City Project, and JCI will guarantee for 25 years a certain reduction in energy costs to the City from the City Project. Although the City expects the City Project to reduce energy costs of the City to the levels projected by JCI, the achievement of such savings or any savings at all involves known and unknown risks, uncertainties and other factors that may cause actual results to materially differ from such expectations.

The Wastewater Project

A portion of the proceeds of the Bonds will be used to acquire, construct and equip the Wastewater Project, which generally consists of certain energy efficiency equipment located at the City’s Wastewater Treatment Plant. The new energy efficiency equipment being installed as part of the Wastewater Project includes the installation and equipping of photovoltaic power generation facilities, as well as interior and exterior high efficiency Light Emitting Diode (LED) lighting. The scope of work will include engineering, equipment, installation, interconnection to utility, system start-up, and commissioning necessary to design and build the Wastewater Project. The City expects the Wastewater Project to reduce energy costs of the Wastewater Enterprise. Under the JCI Contract, JCI will perform the work in connection with the Wastewater Project, and JCI will guarantee for 25 years a reduction in energy costs to the City from the Wastewater Project. Although the City expects the Wastewater Project to reduce energy costs of the Wastewater Enterprise to the levels projected by JCI, the achievement of such savings or any savings at all involves known and unknown risks, uncertainties and other factors that may cause actual results to materially differ from such expectations.

Estimated Sources and Uses of Funds

Table 1 sets forth the estimated sources and uses of funds relating to the issuance of the Bonds:

**Table 1
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS**

ESTIMATED SOURCES AND USES OF FUNDS	
Source of Funds:	
Par amount of Bonds	
<i>[Plus][Less]:</i> Original Issue [Premium][Discount]	
<i>Less:</i> Underwriter's Discount	_____
Total Sources	
Uses of Funds:	
Deposit to Project Fund	
[Deposit to Reserve Fund]	
Costs of Issuance Fund ⁽¹⁾	_____
Total Uses	

(1) Costs of Issuance include legal fees, title insurance, printing costs, recording costs, [rating agency fees,] Trustee fees, [policy premiums for the Bond Insurance and Reserve Surety,] and other miscellaneous expenses in connection with the issuance, sale and delivery of the Bonds.

Debt Service Requirements

Table 2 sets forth the annualized debt service payments on the Bonds, assuming no optional or extraordinary redemptions of the Bonds prior to maturity, other than mandatory sinking account redemptions.

Table 2
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
SERIES 2019 REVENUE BONDS

ANNUAL DEBT SERVICE SCHEDULE

<u>Bond Year</u> <u>Ending August 1</u>	<u>Principal Portion of</u> <u>Debt Service</u>	<u>Interest Portion of</u> <u>Debt Service</u>	<u>Total</u> <u>Debt Service</u>
Totals			

Source: The Underwriter.

Table 3 shows the relative contribution of the Base Rental Payments and the Installment Payments (assuming no prepayments).

Table 3
MOUNT SHASTA PUBLIC FINANCING AUTHORITY
LOCAL OBLIGATIONS

ANNUAL DEBT SERVICE SCHEDULE FOR THE LOCAL OBLIGATIONS			
<u>Bond Year</u> <u>(August 1)</u>	<u>Base</u> <u>Rental Payments</u>	<u>Installment Payments</u> ⁽¹⁾	<u>Total Payments</u>
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
Totals			

(1) The Installment Payments are payable on a parity basis with the Prior Obligations. For additional information about the Prior Obligations, see “SECURITY RELATING TO THE INSTALLMENT SALE AGREEMENT – Issuance of Parity Obligations – Existing Parity Obligations.”
Source: Underwriter.

THE LEASED FACILITIES

General Description

Under the Lease Agreement and the Site Lease, the Leased Facilities consist of the City of Mount Shasta City Hall and Police Department site and facilities located at 305 N. Mt. Shasta Boulevard, Mount Shasta, California. The Authority will lease the Leased Facilities to the City pursuant to the Lease. Under the Lease, the City is required to maintain the Leased Facilities in good working order.

Description of City Hall and Police Station Building. City Hall and Police Department building is comprised of a two story, _____-square foot building that was constructed in 19__, which was built upon on land owned by the City. The City Hall and Police Station building is made of Concrete mat foundation, wood load bearing and shear walls, truss floor and roof systems and complies with the Americans with Disabilities Act. The building contains a sprinkler system. The site is fully landscaped and includes parking and lighting.

The City Hall and Police Station building and adjacent parking are located on an approximate _____ thousand square feet site. The City Hall houses the City Council Chambers and members' offices, the offices of City Manager, Administrative Services, Finance, Community Development and Public Works as well as other administration offices of the City. The Police Department houses [a jail facility,] a communications center, administrative offices, training and conference rooms, locker rooms, interview rooms, a dispatch center and a lobby.

Estimated Values of the Leased Facilities

The City and the Authority, based on comparable properties, and other records they maintain, estimate the current fair rental value of the Leased Facilities to be not less than the amount of the annual Base Rental Payments; however, the City makes no assurances regarding the ability to relet any component of the Leased Facilities or the amount of rental income to be received in the event that any component of the Leased Facilities is relet.

The City, based certain on comparable properties, insurance appraisals, third-party reports, and other records they maintain, estimate the collective value of the Leased Facilities to be more than \$__ million. Bond Owners do not have a mortgage on any portion of the Leased Facilities. See the caption "RISK FACTORS" and "SECURITY FOR THE BONDS – Limitations on Remedies and Bankruptcy" herein.

Modifications of Leased Facilities

Under the Lease Agreement, the City will have the right during the term of the Lease Agreement to make additions, modifications and improvements to the Leased Facilities or any portion thereof. Such additions, modifications and improvements may not in any way damage the Leased Facilities, or cause the Leased Facilities to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Facilities, upon completion of any additions, modifications and improvements, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements. See "APPENDIX A – SUMMARY OF LEGAL DOCUMENTS" herein.

Substitution or Release of Leased Facilities

Under the Lease Agreement, the City has the option, at any time and from time to time, to substitute other real property (the “Substitute Property”) for any portion of the Leased Facilities (the “Former Property”) or release any identifiable real property and/or improvements currently constituting the Leased Facilities (in such case, Substitute Property shall mean the Former Property less any released portion) upon satisfaction of all of the requirements set forth in the Lease, which include the following requirements:

- No Event of Default under the Lease has occurred and is continuing;
- The City must file with the Authority and the Trustee, and cause to be recorded in the office of the Siskiyou County Recorder, sufficient memorialization of amendments to the Lease Agreement and the Site Lease which replaces each respective Exhibit A in such documents with a description of such Substitute Property which deletes therefrom the description of the Former Property;
- The City has obtained a California Land Title Association (“CLTA”) or American Land Title Association (“ALTA”) policy of title insurance insuring the City’s fee or leasehold estate under the Lease Agreement in the Substitute Property, and the Authority’s leasehold estate under the Site Lease in such Substitute Leased Facilities subject only to Permitted Encumbrances (as defined in the Lease Agreement), in an amount at least equal to the aggregate principal amount of the Outstanding Bonds provided, however, that this requirement shall not apply to Substitute Property that consists only of Former Property less any released portion;
- The City shall certify in writing to the Authority and to the Trustee that such Substitute Property serves an essential governmental function of the City, and constitutes property which the City is permitted to lease under the laws of the State;
- The substitution of the Substitute Property will not cause the City to violate any of its covenants, representations and warranties made under the Lease Agreement;
- The City has certified in writing to the Authority and the Trustee that the annual fair rental value of the Substitute Property after substitution or release will be at least equal to 100% of the maximum amount of the Base Rental Payments becoming due in the then current fiscal year or in any subsequent fiscal year, and that the useful economic life of the Substitute Property shall be at least equal to the maximum remaining term of the Lease Agreement; and
- The City shall furnish to the Trustee an opinion of Bond Counsel addressed to the Trustee, the City and the Authority to the effect that the substitution or release is permitted under the Lease Agreement and will not in and of itself (i) impair the validity and enforceability of the Lease Agreement or (ii) impair the exclusion of interest on the Bonds, and, if applicable, any Additional Bonds, from the gross income of the owners thereof for federal income tax purposes.

Upon the satisfaction of all conditions precedent to substitution set forth in the Lease Agreement, the Term of the Lease Agreement will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute

Property. The City will not be entitled to any reduction, diminution, extension or other modification of the Base Rental Payments whatsoever as a result of such substitution or release. The City and the Authority will execute, deliver and cause to be recorded all documents required to properly discharge the Lease Agreement lien of record against the Former Property. See “APPENDIX A – SUMMARY OF LEGAL DOCUMENTS” herein.

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to the Bond Law, the Resolutions and the Indenture.

General Description

Fully Registered Bonds in Book-Entry Only Form. The Bonds will be issued as one fully registered bond certificate without coupons for each maturity (unless the Bonds of such maturity bear different interest rates, then one certificate for each interest rate among such maturity) and, when issued, will be initially issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in book-entry form only, in integral multiples of \$5,000.

Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds.

So long as DTC’s book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the Authority or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

In the event (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Authority determines that the DTC will no longer so act, then the Authority will discontinue the book-entry system with DTC. If the Authority fails to identify another qualified securities depository to replace DTC, then the Bonds so designated will no longer be restricted to being registered in the registration books kept by the Trustee in the name of Cede & Co., but will be registered in whatever name or names persons transferring or exchanging Bonds will designate, in accordance with the provisions of the Indenture.

Repayment of the Bonds. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, and will be dated the date of delivery thereof and will mature on August 1 in the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds is payable semiannually from their dated date at the rates set forth on the inside cover page hereof, on February 1 and August 1 of each year (each an “Interest Payment Date”), commencing February 1, 2020, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be

by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more. Interest on the Bonds will be calculated based on a 360-day year consisting of twelve 30-day months.

While the Bonds are subject to the book-entry system, the principal and interest with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

Transfer or Exchange of the 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 will 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 pursuant to the Indenture.

Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

If a Bond is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the Owner of such Bond, will authenticate, subject to the provisions of the Indenture, a new Bond of like tenor and amount. In the case of a lost, stolen or destroyed Bond, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new Bond delivered in replacement of such Bond, and the Authority may require payment of the expenses of the Authority, the City and the Trustee incurred in connection therewith.

Redemption Provisions

Optional Redemption of Bonds. The Bonds maturing on or before August 1, 20__, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after August 1, 20__, are subject to redemption in whole or in part in integral multiples of \$5,000, by such maturities as are selected by the Authority (or, if the Authority fails to designate such maturities, then pro rata among maturities), and by lot within a maturity, from any source of available funds, on any date on or after August 1, 20__, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

Mandatory Sinking Account Redemption. The Term Bonds maturing on August 1, 20__ are subject to mandatory redemption from monies in the Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each August 1, on and after August 1, 20__, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Redemption Date
(August 1)

Principal Amount
To be Redeemed

* Maturity

Notwithstanding the foregoing, if some but not all of the Term Bonds are redeemed pursuant to the optional or special mandatory provisions of the Indenture, the aggregate principal amount of the respective Term Bonds to be prepaid in each year thereafter under shall be reduced by the aggregate principal amount of respective Term Bonds so prepaid, to be allocated among sinking fund payments on a pro rata basis in integral multiples of \$5,000.

Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the Authority or the City in a written request provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000, from Net Proceeds of casualty insurance or a condemnation award upon the terms and conditions of, and as provided for in, the Indenture and the applicable Installment Sale Agreement or Lease Agreement, at a prepayment price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Purchase in Lieu of Redemption. At any time prior to the selection of Bonds for redemption, the Trustee may, upon written direction of either the Authority or the City, apply amounts held for redemption of Bonds 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 payable from the Interest Account) as either the Authority or the City may direct the Trustee, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price of such Bonds; and provided further that in the case of optional redemption, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts for redemption may be used for payment of such Bonds to be redeemed in order of their due date as set forth in a request of either the Authority or the City.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption, by such maturities as either the Authority or the City will designate (and by lot within any maturity). For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 portions and such portions will be treated as separate Bonds, which may be separately redeemed.

Partial Redemption of Bonds. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of either the Authority or the City, a new Bond or Bonds of the same series and

maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond being redeemed.

Notice of Redemption. The Trustee shall give notice of redemption to the Owners of the Bonds and to certain security depositories and information services, not less than thirty (30) nor more than sixty (60) days prior to the redemption date. Such notice must specify the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, all as more fully specified in the Indenture, and shall require that such Bonds be surrendered on the redemption date at the office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date. Failure by any Owner of a Bond to receive such notice or any defect in any notice so mailed will not affect the sufficiency of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest on the date fixed for redemption.

The Authority has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture.

Neither the City, the Authority nor the Trustee will have any liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will cause notice of such rescission to be mailed, first class mail, postage prepaid, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books, and to the Municipal Securities Rulemaking Board and the Securities Depositories.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption will have been duly provided, such Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon from and after the redemption date. All such Bonds redeemed will be canceled by the Trustee.

All moneys held by or on behalf of the Trustee for the payment of principal of or interest or premium on Bonds whether at redemption or maturity, will be held in trust for the account of the Owners thereof and the Trustee will not be required to pay Owners any interest on, or be liable to Owners for any interest earned on, moneys so held.

SECURITY FOR THE BONDS

The Bonds are limited obligations of the Authority and are not a lien or charge upon the funds or property of the Authority, except to the extent of the pledge and assignment of Revenues provided for in the Indenture. The obligation of the City to make Installment Payments and Base Rental Payments does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to make Base Rental Payments does not constitute an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. Neither the full faith and credit nor the taxing power of the City, the State nor any agency thereof is pledged to the payment of the principal of or interest on the Bonds. The Authority has no taxing power. This section provides summaries of the security for the Bonds and certain provisions of the Indenture. See “APPENDIX A – SUMMARY OF LEGAL DOCUMENTS” for a more complete summary of the Indenture, the Lease Agreement and the Installment Sale Agreement. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Revenues; Pledge of Revenues

All Revenues (as defined below) and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Indenture are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Indenture, and the Revenues may not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Indenture. Said pledge constitutes a lien on and security interest in the Revenues and such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act. See “SECURITY RELATING TO THE INSTALLMENT SALE AGREEMENT” and “SECURITY RELATING TO THE LEASE AGREEMENT” herein.

“**Revenues**” means (a) all Installment Payments, but excluding any corresponding Additional Installment Payments, (b) all Base Rental Payments, but excluding any corresponding Additional Rental Payments, (c) amounts deposited in the Reserve Fund and Revenue Fund, (d) Prepayments, and (e) all and interest, profits or other income derived from the investment of amounts in any fund or account (except the Rebate Fund) established pursuant to the Indenture.

Such pledge constitutes a lien on and security interest upon the Revenues and all other moneys on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Bonds in accordance with their terms and the terms of the Indenture.

In the Indenture, the Authority agrees to transfer in trust, grant a security interest in and assign to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Installment Sale Agreement and the Lease Agreement to the extent payable to the Authority.

In order to carry out and effectuate the pledge, charge and lien on Revenues provided in the Indenture, the Authority agrees and covenants in the Indenture that all Revenues will be promptly deposited by the

Trustee upon receipt thereof in the Revenue Fund created under the Indenture, which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Installment Sale Agreement and/or the Lease Agreement to be deposited in the Redemption Fund will be promptly deposited in such Fund. All Revenues will be accounted for through and held in trust in the Revenue Fund, and the Authority has no beneficial right or interest in any of the Revenues except only as provided in the Indenture.

Flow of Funds Under the Indenture

On or before each Interest Payment Date, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue 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:

(1) Interest Account. On each Interest Payment Date, the Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds, [including any amounts owed to the Insurer,] the amount of interest becoming due and payable on the mandatory sinking account payment due on all Outstanding Term Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking account redemption). No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Bonds on such Interest Payment Date. All moneys 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). In the event that the amounts on deposit in the Interest Account on any Interest Payment Date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Bonds on a pro rata basis.

(2) Principal Account. On each Interest Payment Date on which the principal of the Bonds is payable, 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 Interest Payment Date, [including any amounts owed to the Insurer,] the amount of principal becoming due and payable on the mandatory sinking account payment due on all Outstanding Term Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking account redemption). All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds at the maturity or sinking account payment date thereof.

(3) Reserve Fund. On each Interest Payment Date, the Trustee shall deposit in the Reserve Fund an amount, if any, required to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement [(including amounts necessary to replenish a draw under the Reserve Policy)] (but only to the extent that a negative balance therein is properly traced and charged

to either the General Fund or the Wastewater Enterprise, as the case may be, due to the receipt of an insufficient payment from the City under either the Lease Agreement or the Installment Sale Agreement, as the case may be).

(4) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner described above, any moneys remaining in the Revenue Fund may at any time be treated as surplus and applied as provided in the Indenture.

Reserve Fund

In order to further secure the payment of principal of and interest on the Bonds, the Trustee shall establish, maintain and hold in trust pursuant to the Indenture a Reserve Fund in an amount equal to the Reserve Requirement. "Reserve Requirement" is defined in the Indenture to mean \$ _____.

[The Reserve Requirement will be satisfied initially by crediting to the Reserve Fund a Reserve Surety issued by the Insurer.]

Except for release of excess as provided in the Indenture, all amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption, when due and payable to the extent that moneys deposited in the Interest Account, Principal Account or Sinking Account, respectively, are not sufficient for such purpose.

If at any time the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the City is required to determine which Local Obligation caused the shortfall, and then pay from corresponding Local Obligation, as the case may be, to the Trustee the amount of such deficiency as provided in the respective Lease Agreement or Installment Sale Agreement, as the case may be. Any amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement will be transferred by the Trustee to the Revenue Fund.

The Authority shall have the right at any time to direct the Trustee to release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Fund Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Fund Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation.

[On the Closing Date, the City will cause the Reserve Surety to be delivered to the Trustee. All cash and investments in the Reserve Fund shall be transferred to the applicable accounts in the Debt Service Fund for payment of debt service on Bonds before any drawing may be made on the Reserve Surety or any other Qualified Reserve Credit Instruments credited to the Reserve Fund in lieu of cash. Reimbursement for draws on a Qualified Reserve Credit Instrument owing to the provider thereof, including accrued interest, shall be made prior to replenishment of any such cash amounts. Draws on all Qualified Reserve Credit Instruments (including the Reserve Surety) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Reimbursement of amounts with respect to Qualified Reserve Credit Instruments shall be made on a pro rata basis prior to replenishment of any cash drawn from the Reserve

Fund. For the avoidance of doubt, “available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable Qualified Reserve Credit Instruments without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.]

Applicable Definitions

“**Base Rental Payments**” means all amounts payable by the City as Base Rental Payments (denominated into Principal Components and Interest Components) in accordance with the Base Rental Payment Schedule attached as Exhibit B of the Lease Agreement.

“**Enterprise**” means, collectively, the entire wastewater collection, treatment and disposal system owned or operated by the City, including but not limited to all facilities, properties and improvements at any time owned or operated by the City for the collection, treatment and disposal of wastewater within the service area of the City, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

“**Gross Revenues**” means, for any Fiscal Year or other period, all gross income and revenue received by the City from the ownership and operation of the Enterprise, including, but not limited to the following: (a) all income, rents, rates, fees, charges and other moneys received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Enterprise or otherwise arising from the Enterprise, (b) all amounts levied by the City as a fee for connecting to the Enterprise, as such fee is established from time to time under the applicable laws of the State; (c) all proceeds of insurance (if any) covering business interruptions loss relating to the Enterprise, (d) the earnings on and income derived from the investment of the foregoing income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Enterprise; (e) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Enterprise as permitted in this Agreement; and (e) amounts transferred from a Rate Stabilization Fund to the Wastewater Fund in any Fiscal Year under Installment Sale Agreement. However, the term “Gross Revenues” does not include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Enterprise.

“**Local Obligations**” means, collectively, (i) the Installment Sale Agreement and (ii) the Lease Agreement.

“**Net Revenues**” means, for any period, all of the Gross Revenues received from the Enterprise during such period minus the amount required to pay all Operation and Maintenance Costs which are payable during such period.

“**Operation and Maintenance Costs**” means all costs paid or incurred by the City for maintaining and operating the Wastewater Enterprise, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to operate, maintain and preserve the Wastewater Enterprise in good repair and working

order, (b) all administrative costs of the City that are charged directly or apportioned to the operation of the Wastewater Enterprise, such as salaries and wages of employees, overhead, taxes (if any) and insurance, and (c) administrative costs of the Bonds which the City is required to pay under the Installment Sale Agreement, including Additional Installment Payments. However, “Operation and Maintenance Costs” do not include (i) payments of debt service on bonds, notes, contracts or other obligations issued by the City with respect to the Wastewater Enterprise, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

SECURITY RELATING TO THE INSTALLMENT SALE AGREEMENT

Flow of Funds Under the Installment Sale Agreement

The City has previously established the Wastewater Fund (sometimes referred to as the “Utility Fund”), in which the City will deposit all Gross Revenues immediately on receipt. The City shall apply amounts on deposit in the Wastewater Fund to pay when due the following amounts in the following order of priority:

- (i) all Operation and Maintenance Costs of the Enterprise;
- (ii) the Installment Payments, and all payments of principal of and interest on any respective Parity Obligations;
- (iii) to the Trustee, the amount needed to [replenish the Reserve Policy and pay Policy Costs on the Reserve Policy for the Bonds and] cure any deficiency in the Reserve Fund and in any reserve fund established for Parity Obligations caused by the Enterprise, the notice of which deficiency has been given to the City in accordance with the Indenture and the related Parity Obligation Documents, respectively, [and to the Insurer, any amounts owed pursuant to the Indenture in connection with the Reserve Policy];
- (iv) any other payments required to comply with the provisions of this Installment Sale Agreement and any respective Parity Obligations Documents; and
- (v) any other purposes authorized under the Installment Sale Agreement.

Installment Payment Fund

The Authority has irrevocably assigned to the Trustee all of its rights in the Installment Sale Agreement, except those rights outlined in the Indenture. Under the Indenture, the Trustee will establish and maintain the special fund designated as the “Installment Payment Fund,” into which the Trustee shall deposit all amounts paid to the Trustee for such purpose under the Installment Sale Agreement, including but not limited to the right to receive and collect all of the Installment Payments and all other amounts required to be deposited in the Installment Payment Fund. Except as provided in the Indenture, the Trustee will apply amounts in the Installment Payment Fund solely for the purpose of paying the principal, interest and prepayment premiums (if any) represented by the Bonds when due, in accordance with the provisions of the Indenture.

The Trustee will hold amounts in the Installment Payment Fund in trust for the benefit of the City

and the Owners of the Bonds. So long as any Bonds are Outstanding, neither the City nor the Authority has any beneficial right or interest in the Installment Payment Fund or the moneys deposited therein, except only as provided in the Installment Sale Agreement or in the Indenture.

At the written request of the City, the Trustee will withdraw and remit to the City any surplus remaining in the Installment Payment Fund after prepayment and payment of all Bonds, including all premiums and accrued interest (if any) and payment of any applicable fees and expenses to the Trustee, or provision for such prepayment or payment having been made in accordance with the Indenture.

Rate Stabilization Fund

Under the Installment Sale Agreement, the City has the right at any time to establish one or more rate stabilization funds (each, a “Rate Stabilization Fund”) to be held by it and administered in accordance with the Installment Sale Agreement, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Enterprise. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien which secures the Installment Payments and any Parity Obligations, as the City may determine.

The City may, but is not be required to, withdraw any amounts from the Rate Stabilization Fund and deposit such amounts in the Wastewater Fund in any Fiscal Year for the purpose of paying the Installment Payments or the principal of and interest on any Parity Obligations. Amounts so transferred from a Rate Stabilization Fund to the Wastewater Fund will constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Installment Sale Agreement) and will be applied for the purposes set forth in the Installment Sale Agreement. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Installment Payments or any Parity Obligations. The City may at any time withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City. There will be no balance in the Rate Stabilization Fund at the time of Closing.

Limited Obligation

The Bonds are not secured by a lien on or a security interest in the Wastewater Enterprise. The City’s obligation to pay the Installment Payments and any other amounts coming due and payable under the Installment Sale Agreement is a special obligation of the City limited solely to the respective Net Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of the Installment Payments and such other amounts. No other funds or property of the City are liable for the payment of the Installment Payments and any other amounts coming due and payable thereunder.

The Authority has no pecuniary obligation or liability to the City or the Trustee, or to any of the Owners of the Bonds, with respect to the performance by the City of its obligations under the Installment Sale Agreement or the Indenture, with respect to the terms, execution, delivery or transfer of the Bonds, or with respect to the distribution of Installment Payments to the Owners by the Trustee.

Rate Covenants

Pursuant to the Installment Sale Agreement, the City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from the Wastewater Enterprise sufficient to pay 100% of the following amounts in the following order of priority:

- (i) all Operation and Maintenance Costs of the Wastewater Enterprise estimated by the City to become due and payable in such Fiscal Year;
- (ii) the Installment Payments;
- (iii) all other payments required for compliance with this Indenture and the instruments pursuant to which any Parity Obligations relating to the Wastewater Enterprise shall have been issued; and
- (iv) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues of the Wastewater Enterprise or the Net Revenues of the Wastewater Enterprise.

In addition, the City shall fix, prescribe, revise and collect charges for the Wastewater Enterprise during each Fiscal Year which are sufficient to yield Net Revenues of the Wastewater Enterprise which, when added to other funds transferred from stabilization reserve funds for the Wastewater Enterprise, and which are lawfully available to the City for payment of the items listed in clauses (ii) and (iii) above during such Fiscal Year, will aggregate an amount at least equal to one hundred twenty percent (120%) of the amounts payable under the preceding clauses (ii) and (iii) in such Fiscal Year for the Installment Payments Attributable to the Wastewater Enterprise and any Parity Obligations which have a lien on such Net Revenues of the Wastewater Enterprise.

No Issuance of Obligations Superior to the Installment Payments

There are currently no obligations which are payable from Net Revenues on a superior basis to the Installment Payments. Pursuant to the Installment Sale Agreement, the City may not issue or incur any additional obligations having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments.

Issuance of Parity Obligations

Existing Parity Obligations. The Installment Payments are payable by the City on parity with the Prior Obligations.

Future Parity Obligations. Under the Installment Sale Agreement, except for obligations incurred to prepay or discharge the Installment Payments or any Parity Obligations, the City may not issue or incur any Parity Obligations during the Term of the Installment Sale Agreement unless:

- (a) No Event of Default has occurred and is continuing;

(b) The City shall file with the Trustee a report of a Fiscal Consultant showing that for each of the five full Fiscal Years following the issuance of such Parity Obligations for the applicable Enterprise, the Net Revenues of the applicable Enterprise (excluding any amounts derived from a Rate Stabilization Fund) which the City is projected to receive in such Fiscal Years will be at least equal to 120% of Debt Service coming due in such Fiscal Years for the applicable Enterprise. In computing the amount of Net Revenues which are projected to be received in any of the five full Fiscal Years following the issuance of such Parity Obligations for the applicable Enterprise, such report may take into account any Additional Revenues which are projected to be received in such Fiscal Years for the applicable Enterprise; and

(c) The City can demonstrate compliance with any applicable parity debt provisions of the Prior Obligations that are more stringent than subparagraphs (a) and (b) above.

Insurance; Net Proceeds

The City will procure and maintain such insurance relating to the Enterprises (but only if and to the extent available at reasonable cost from reputable insurers) a standard comprehensive general insurance policy or policies in protection of the Authority, the Trustee, the City, and their respective members, officers, agents and employees.

In addition, the City will procure and maintain, or cause to be procured and maintained (but only in the event and to the extent available from reputable insurers at reasonable cost) casualty insurance against loss or damage to any improvements constituting any part of the Enterprises, covering such hazards as are customarily covered with respect to works and property of like character.

Such insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Installment Sale Agreement, 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 Enterprise shall be Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Enterprise or otherwise as permitted by the Installment Sale Agreement.

Any amounts received as awards as a result of the taking of all or any part of the Wastewater Enterprise by the lawful exercise of eminent domain shall be set aside and shall be used for the acquisition or construction of improvements and extension of the Enterprise or otherwise as permitted by the Installment Sale Agreement, and with respect to which the Trustee shall have a security interest.

SECURITY RELATING TO THE LEASE AGREEMENT

General

A portion of the Bonds are payable in part from Base Rental Payments to be made by City under the Lease Agreement. The Authority, pursuant to the Indenture, will assign its rights and remedies under the Lease Agreement to the Trustee for the benefit of the Owners of the Bonds, including its right to receive Base

Rental Payments thereunder. A portion of principal, interest and redemption premium, if any, due on the Bonds will be made from the Base Rental Payments payable by City for the use and possession of the City Project.

Appropriations Covenant

The City has covenanted under the Lease Agreement to make Base Rental Payments for the use and possession of the Leased Facilities and so long as the Leased Facilities is available for the City’s use, to take such action each year as may be necessary to include all Base Rental Payments and Additional Rental Payments in its annual budget and annually to appropriate an amount necessary to make such Base Rental Payments and Additional Rental Payments.

The obligation of the City to make Base Rental Payments and Additional Rental Payments constitutes a current expense of the City and does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation. The City’s obligation under the Lease Agreement does not constitute a pledge of the general tax revenues, funds or moneys of the City. Base Rental Payments and Additional Rental Payments shall be payable only from current funds which are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments and Additional Rental Payments as consideration for the use of the Leased Facilities. Neither the Bonds nor the obligation of the City to make Base Rental Payments and Additional Rental Payments constitutes an indebtedness of the City, the Authority, the State or any of its political subdivisions within the meaning of the Constitution of the State or otherwise a pledge of the faith and credit of the City.

For more information on the City’s finances, see APPENDIX D – “GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA.”

Abatement

Under the Lease Agreement, a proportionate amount of Base Rental Payments shall be abated during any period in which, by reason of condemnation, damage, destruction, theft or otherwise, there is substantial interference with the use and possession of any component of the Leased Facilities by the City and the Base Rental Payments due under the Lease Agreement shall exceed the fair rental value of the Leased Facilities. There shall be no abatement of Base Rental Payments to the extent that moneys legally available to the City and transferred to the Trustee for the purpose of making Base Rental Payments, and are available to pay the amount which would otherwise be abated. The amount of any abatement shall be such that the resulting Base Rental Payments in any Fiscal Year during which such interference continues do not exceed the fair rental value for the use and possession of the Leased Facilities not condemned, taken, damaged or destroyed. Such abatement shall commence on the date of condemnation, theft, damage or destruction and shall end with the substantial completion of the work of repair of such Leased Facilities. Additional Rental Payments shall not be abated so long as a significant portion of the Leased Facilities remains available for the use and possession of the City. Except as provided in the Lease Agreement, in the event of any such condemnation, theft, damage or destruction, the Lease Agreement shall continue in full force and effect and the City has waived any right to terminate the Lease Agreement by virtue of any such condemnation, theft, damage or destruction.

Insurance; Risk of Loss

All Risk Insurance. The City shall secure and maintain or cause to be secured and maintained at all times with insurers of recognized responsibility or through a program of self-insurance to the extent specifically permitted in the Lease Agreement, all coverage on the Leased Facilities required by the Lease Agreement, including a policy or policies of insurance against loss or damage to the Leased Facilities known as “all risk,” including theft, earthquake and flood. Such insurance shall be maintained at all times in an amount not less than the greater of the full replacement value of the Leased Facilities or the aggregate Principal Components (as defined in the Lease Agreement) at such time Outstanding (such insurance may at any time include a deductible clause providing for a deductible not to exceed \$1,000,000 from all losses in any year. If such policies are not available or if such policies are not obtainable with such deductibles from reputable insurers at a reasonable cost on the open market, the City shall self-insure to the extent it cannot obtain such insurance policies).

Liability Insurance. The City shall at its own expense procure and maintain, continuously in effect during the Lease Term, comprehensive general liability coverage against claims for damages including death, personal injury, bodily injury or property damage arising from operations involving the Leased Facilities (such insurance shall afford protection with a combined single limit of not less than \$100,000 per occurrence with respect to bodily injury, death or property damage liability, or such greater amount as may from time to time be recommended by the City’s risk management officer or an independent insurance consultant retained by the City for that purpose); provided, however, that the City’s obligations may be satisfied by self-insurance.

Rental Interruption Insurance. The City shall at its own expense procure and maintain, continuously in effect during the Term of the Lease Agreement, rental interruption insurance to cover loss, total or partial, of the use of any component part of the Leased Facilities as a result of any of the hazards covered by the “All Risk” insurance above, in an amount sufficient at all times to pay the Base Rental Payments under the Lease Agreement for a period of not less than two years (the City may not self-insure for rental interruption insurance).

Workers Compensation Insurance. If required by State Law, City shall carry workers’ compensation insurance covering all employees on, in, near or about the Leased Facilities, and upon request, shall furnish to Authority certificates evidencing such coverage throughout the Lease Term.

Requirements for All Insurance. All insurance policies required by the Lease Agreement shall contain a provision that the insurer shall not cancel or revise coverage thereunder without giving written notice to the insured parties and loss payees at least thirty (30) days before the cancellation or revision becomes effective. No insurance shall be subject to any co-insurance clause. Each insurance policy shall name Authority and its assigns as an additional insured party and loss payee without regard to any breach of warranty or other act or omission of City and shall include a lender’s loss payable endorsement for the benefit of Authority. Prior to the Closing Date, City shall deposit with Authority evidence satisfactory to Authority of such insurance and, prior to the expiration thereof, shall provide Authority evidence of all renewals or replacements thereof.

Risk of Loss. All risk of loss, damage, theft or destruction the Leased Facilities shall be borne by the City. No such loss, damage, theft or destruction of the Leased Facilities, in whole or in part, shall impair the obligations of the City under the Lease Agreement (including, but not limited to, the obligation to pay Base Rental Payments when due), all of which shall continue in full force and effect subject to the terms of the Lease Agreement. If (a) the Leased Facilities or any portion thereof is destroyed (in whole or in part) or is

damaged by fire or other casualty or (b) title to, or the temporary use of, the Leased Facilities or any part thereof is taken under the exercise of the power of eminent domain, the City shall immediately notify the Authority. The City and the Authority shall cause the Net Proceeds of any insurance claim or condemnation award to be applied, at the City's option, so long as the City is not in default, to (i) the prompt repair, restoration, modification or replacement of the Leased Facilities, or (ii) to redeem the Outstanding Bonds, to the extent possible and in accordance with the provisions of the Indenture, but only if the Base Rental Payments due after such redemption would be sufficient to retire the Bonds then outstanding in accordance with their terms. Any balance of Net Proceeds remaining after completion of such work or payment of such prepayment amount shall be paid promptly to the City. If the Net Proceeds are insufficient to pay the costs of such repair, restoration, modification or replacement or to pay such prepayment amount in full, the City Manager shall seek an appropriation of funds by the City Council to either complete the work or pay the then applicable redemption price in full and in either case at a cost in excess of the amount of Net Proceeds.

THE AUTHORITY

The Mount Shasta Public Financing Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated as of May 13, 2019 (the "Joint Exercise of Powers Agreement"), by and between the City and the Mount Shasta Industrial Development Authority. The Joint Exercise of Powers Agreement was entered into pursuant to the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Act"). 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 financing and/or refinancing public capital improvements of public entities, including the City.

The Authority is governed by a five-member board whose members are the same as the City Council of the City. The Authority has no employees and all staff work is done by City staff or by consultants to the Authority. The Mayor acts as the Chair of the Authority, the City Manager acts as its Executive Director, the City Clerk acts as the Secretary, and the Treasurer of the City acts as the Treasurer of the Authority.

THE CITY

General

The City is located along Interstate 5 in the heart of Siskiyou County, California (the "County"). The City is located about 75 miles north of Redding, about 290 miles north of Sacramento, and about 85 miles south of Medford, Oregon. It is one of four incorporated cities in Siskiyou County and is a principal center for government, commerce, agricultural interest, and recreation in the County. The City encompasses approximately 3.8 square miles.

The City was incorporated in 1905 and operates as a general law city under the council-manager form of government. The City provides a range of municipal services to its citizens including public safety, streets and roads, library, water, sewer, sanitation and drainage, public improvements, planning and zoning, and general administrative services. The City has a resident population of just under 3,283, with the County having a resident population of approximately 44,584. See "APPENDIX D – GENERAL INFORMATION

REGARDING THE CITY AND SURROUNDING AREA” herein.

Governance and Management

The City Council is comprised of five elected council members served by a full-time City Manager and staff. Council members are elected at large for staggered four-year terms. The City Council establishes the rates and charges for the Wastewater Enterprise. At the regular meeting in December of each year the City Council chooses one of its members to serve as Mayor and one of its members to serve as Mayor Pro Tem, each to serve until successors are chosen at the regular meeting in the following December. The current Council members and their respective titles and ending terms of office are as follows:

<u>Name</u>	<u>Title</u>	<u>Expiration of Office Term</u>
Barbara Wagner	Mayor	November 2020
John Stackfleth	Mayor Pro Tem	November 2020
Paul Engstrom	Council Member	November 2020
John Redmond	Council Member	November 2022
Jeffrey Collings	Council Member	November 2022

City Administration. The City Manager is appointed by the City Council solely on the basis of executive and administrative qualifications. The City Manager holds office for an indefinite term at the pleasure of the City Council. The City Manager is the chief executive of the City government under the direction and control of the Council, and has authority over all other officers and employees except the City Clerk and City Attorney. The City’s Public Works Department is responsible for the day-to-day operation and maintenance of the Wastewater Enterprise. The Director of Public Works reports to the City Manager. Brief biographies of the City Manager, Finance Director and Public Works Director are set forth below.

Bruce D. Pope, City Manager [short biography]

Muriel Howarth Terrell, Finance Director [short biography]

Rod Byran, Public Works Director [short biography]

City Employee Pension Plans

The City provides health and retirement benefits to all full-time employees, the costs for City and Enterprise employees of which are reflected in the operating budgets of the City and the Enterprises, as applicable. Retirement benefits are provided through a contract with the California Public Employees' Retirement System.

In addition to providing retirement benefits, the City provides post-employment healthcare benefits, see APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2017-18.”

Reserve Policy

The City's current reserve policy was adopted by resolution of the City Council on [REDACTED], 201 [REDACTED] (the “Reserve Policy”). The Reserve Policy provides that the City will maintain reserves of not less than 25% of the General Fund operating budget which is intended to assure adequate reserves for ongoing needs while minimizing the need for new debt. The reserve levels established in the Reserve Policy also help provide rate stabilization and ensure adequate fund levels to meet aging infrastructure replacements, unanticipated emergencies, and future expansion needs of the City.

The reserves will be drawn down as a funding source of last resort and used only after other reserve accounts have been accessed. Each Fiscal Year the actual and final General Fund surplus will first be used to fully fund the required General Fund reserves, and any remaining General Fund surplus or balance may be transferred to any other governmental or proprietary fund. Appropriations or use of funds from any designated reserves will require City Council approval. The City is not legally obligated to maintain reserves at the levels identified in the policy, and the actual amount of reserves will vary from year to year.

Other City and Financial Information

In General. Information with respect to the City, including financial information and certain economic and demographic information relating to the City is provided in APPENDIX D – “GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA.” Also, see APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2017-18.”

Audited Financial Statements. Aiello, Goodrich & Teuscher, an Accountancy Corporation, Mount Shasta, California, (the “Auditor”) audited the financial statements of the City for the Fiscal Year ended June 30, 2018. The firm's examination was made in accordance with generally accepted auditing standards. The complete audited financial statements of the City for the Fiscal Year ended June 30, 2018 are included in this

Official Statement as APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2017-18.”

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

THE WASTEWATER ENTERPRISE

General

The City owns and operates the wastewater collection, treatment and disposal facilities that serve the City of Mount Shasta. The Wastewater Enterprise currently provides wastewater service to approximately 1,942 customer accounts, 84% of which are residential. The City anticipates growth of nearly ___ additional sewer customers by 20___. Wastewater facilities generally consist of a biological treatment facility, ___ lift stations and approximately ___ miles of sewer lines, inlet pumps, inlet flumes, lift station pumps, ___ lagoons, aerators, and recycle water storage tanks. The various facilities and capacities of the Wastewater Enterprise are described below.

The Collection System

The Wastewater Enterprise’s collection system is composed of approximately _____ feet of collection lines and _____ feet of 12 to 15-inch main interceptor lines. In addition, there are over ___ manholes within the sewer collection system. Collection lines are generally 6 to 10 inches in diameter and are used to collect wastewater from the building laterals. A significant amount of the collection lines in the system (approximately _____ feet) are 4-inch diameter pipes. The main branches of the collection system, typically called trunk or interceptor lines which are 12-inch and larger sewer pipes, convey wastewater to the treatment facility. Sewer piping materials consist of vitrified clay, Orangeburg, asbestos-concrete, plastic, PVC, and other assorted materials. Due to the City’s topography, generally sloping from east to west, the majority of the existing service area is served by gravity flow to _____ () lift stations.

Wastewater Treatment Plant

The City’s existing wastewater treatment plant (the “Wastewater Treatment Plant” or “WWTP”) is located at _____ in the City on a City-owned ___ acre parcel and treats both domestic and commercial wastewater from the City and surrounding unincorporated areas of the County. The existing Wastewater Treatment Plant was constructed in 1976 and consists of a series of ponds, including aerated primary ponds, and slow-sand filtration. In 1999, the City added a dissolved air flotation thickener (DAF), new effluent filter, aeration improvements, and headworks improvements. In 2007, piping improvements were made to the primary ponds that increased the dry weather treatment capacity. Currently, the Wastewater Treatment Plant has a capacity to treat 0.70 million gallons per day (MGD) during dry conditions, and 2.1 MGD during wet conditions.

Treated wastewater is discharged to one of three locations: Upper Sacramento River during the winter, Mt. Shasta Golf Course during the summer, and the City leach field when effluent requirements cannot be met.

In 2010, the State Water Resources Control Board (SWRCB) started imposing more stringent requirements related to removal of metals and ammonia in treated effluent discharges. Under these new guidelines, the City's existing WWTP was incapable of meeting discharge requirements. The City hired engineering consultants and other experts to perform detailed feasibility studies on the best alternatives for mitigating the State's new requirements.

Seven treatment, four disinfection and two effluent disposal alternatives were considered in a feasibility study. Through raw wastewater testing, biological treatment modelling and analysis, the recommended alternative consists of the following elements:

- AeroMod activated sludge with nitrogen removal; consisting of aeration basins, selectors, clarifiers, and digesters
- Rotating disc filtration
- Ultra-violet (UV) disinfection
- Grit removal
- Mechanical Headworks screening

The proposed new facilities will replace the City's existing pond-based treatment system and have capacity to treat 0.9 MGD during dry conditions and up to 3.6 MGD during wet conditions (the "2020 Wastewater Project").

Public bids for constructing the 2020 Wastewater Project will be opened _____, 2019. A Notice to Proceed with construction is expected to be issued before the end of 2019, with final project completion expected by late 2021.

Environmental Regulation

The Regional Water Quality Control Boards (the "RWQCBs") have authority over all publicly-owned or -operated wastewater treatment facilities in California. The primary purpose of the RWQCBs' Waste Discharge Requirements ("WDR") is to assure water quality protection pursuant to a variety of State and Federal water quality regulations. In California, the RWQCB is the statutorily designated agency with authority to enforce Federal Clean Water Act requirements and standards as well as other federal water quality regulations and guidelines such as the National Pollutant Discharge Elimination System (the "NPDES"), on behalf of the U.S. Environmental Protection Agency.

On October 4, 2012, the Central Valley Regional Water Quality Control Board (the "CVRWQCB") adopted a new NPDES permit (No. RS-2012-0086) and Time Schedule Order ("TSO") (No. RS-2012-0087). The TSO included a compliance schedule to bring ammonia, copper, zinc, BOD5, TSS and pH levels into compliance. In addition, the TSO requires a compliance schedule for Title 22 Disinfection Requirements. The TSO required that a preliminary engineering report be developed to determine a method of compliance. The City has provided the schedules and reports required under the TSO, and the 2020 Wastewater Project has been designed to adequately address all NPDES requirements.

Wastewater System Users

The City serves about 1,942 wastewater accounts, representing approximately 6,214 equivalent dwelling units (EDUs). One EDU is equivalent to the wastewater flow contribution from one single-family residence. Wastewater accounts are broken into the categories shown in Table 4, below.

Table 4
WASTEWATER ENTERPRISE

BREAKDOWN OF WASTEWATER ACCOUNTS	
Account Description	No. of Accounts
Single-family residence	1,487
Apartments	136
Bed and Breakfast	1
Commercial car wash	2
Commercial-High volume	51
Campground and RV	1
Retail commercial	113
School	6
Service station	7
Hospital	1
Commercial laundromat	1
Hotel/Motel	13
Commercial office	90
Residential care facility	3
Restaurant	29
Theatre	1
TOTAL	1,942

Source: City

Wastewater Enterprise Rates and Charges

General. Rates and charges for wastewater service within the Wastewater Enterprise service area are set by the City Council and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The City increases wastewater service charges from time to time in order to maintain adequate revenue surplus after operating expenses, administrative expenses, debt service, and routine capital replacement costs. Funds available after meeting fixed and operational costs are used to supplement capital improvements, accomplish capital replacements, and maintain reserve levels consistent with Council policy.

The City is subject to certain covenants with respect to the Bonds which require that the City fix, prescribe, revise and collect rates and charges for the services and facilities furnished by the Wastewater Enterprise, during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 120% of debt service on the all Parity Obligations, including the Installment Payments Attributable to the Wastewater Enterprise, in such Fiscal Year. See the caption “SECURITY RELATING TO THE INSTALLMENT SALE AGREEMENT – Rate Covenants” herein

Rate Increases. The City Council has the ability to increase rates and charges through a public hearing process. Prior to adopting a fee or charge, the City is required under Proposition 218 to conduct a

public hearing and receive protests. If the City should receive a majority of written protests from its customers, the City would not be authorized to impose the increased rate or charge. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitutional Articles XIII C and Article XIII D” herein

Wastewater Service Charges. The City has separated its customer base into residential and non-residential classes. Pursuant to City Council action taken on May 30, 2017, the City adopted its most recent schedule of wastewater rates. Residential customers are currently charged a monthly flat rate of \$45.00. Non-residential customers pay a monthly rate of \$45.00 per EDU based on 90% of monthly water consumption. An EDU has been determined by the City to mean 175 gallons per day (GPD), or 5,350 gallons per month. For example, a non-residential account consuming 20,000 gallons per month, would pay a wastewater bill based on the following: $(20,000 \text{ gallons} \times 90\%) \div (175 \text{ GPD/EDU} \times 30.4 \text{ days/month}) = 3.38 \text{ EDUs}$. Therefore, a non-residential account consuming 20,000 gallons of water in a month would pay a wastewater bill equivalent to 3.38 times a typical residence.

The base rate for both residential and non-residential customers is scheduled to increase to \$53.00 on July 1, 2020, and \$61.00 on July 1, 2021.

Connection Charges. The City also charges development impact fees to new customers connecting to the Wastewater Enterprise. Development impact fees may be used for the payment of installment payments on the Bonds and constitute gross revenues from which pledged net revenues are derived. Connection fee revenues do not generally constitute a significant percentage of annual Wastewater Enterprise revenues. Wastewater connection fees for each new single-family residence is currently \$ ____, as established pursuant to a resolution adopted May 30, 2017.

Standby Charges. The City charges a “Wastewater Service Standby” fee equivalent to one-half of the normal rate for a particular service. This charge applies to customers who request to discontinue their wastewater service for periods throughout the year, such as vacation or second homes.

Operation, Management and Governance

The City has primary responsibility for the day-to-day management, operation and maintenance of the Wastewater Enterprise and has covenanted to operate the Wastewater Enterprise in an efficient and economical manner and to operate, maintain and preserve the Wastewater Enterprise in good repair and working order. The City endeavors to provide for the operation and maintenance of Wastewater Enterprise facilities for the purpose of treating, reclaiming, and utilizing wastewater and its byproducts in accordance with federal, state, and local requirements; to provide a healthy and nuisance-free environment; to plan for future wastewater treatment needs to meet the anticipated growth of the City; to monitor and regulate industrial waste discharges; and to establish wastewater user fees for properties receiving City wastewater service.

The City has covenanted that, in order to fully preserve and protect the priority and security of the Bonds, it will pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Wastewater Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien granted under the Installment Sale Agreement, or which may otherwise impair the ability of the City to pay the Installment Payments in accordance therewith.

Rate Setting and Collection Process

The City, subject to the requirements of Proposition 218 set forth below, has the power to establish rates and charges for wastewater service as needed, without the oversight of any other governmental agency. The present rate schedule for wastewater service rates and charges was established by City Resolution No. CCR-17-36, which was adopted by the City Council on May 30, 2017. No rate increases have been proposed or adopted with respect to the issuance of the Bonds. The City also establishes and maintains a schedule of sewer connection fees and fees for other services.

The City's Finance Department handles billing and payment collection for wastewater services. Wastewater billing is combined with water and solid waste charges and billed to customers monthly. All accounts are due and payable upon receipt. Utility bills are delinquent if not paid by the last day of the billing month. Delinquent bills will be charged a late fee of 10%. If payment is not made by the 1st of the following month, a letter is mailed to the customer, along with a copy to the landlord, if appropriate, advising of the delinquency and that the City will mandate services be placed in the name of the landlord for the remainder of their tenants stay if payment is not received within 10 days. On the 10th of each month, delinquent cards are sent to the remaining delinquent accounts and service is disconnected 15 days following the notice. In order for water/wastewater service to be reinstated, customers must pay the past due balance, a \$25 delinquent fee, and a deposit if appropriate. At that point, customers are sent to collections. If the property is owned by the delinquent customer, the City has the ability to place a tax lien on each delinquent property each August.

Wastewater accounts that do not have water service included, have no recourse to disconnection. These accounts are handled by personal customer contact via telephone, mail, email, or any other means necessary to obtain payment. If not paid, as above, they are sent to collections or a tax lien on their property is initiated. The City currently has 1 wastewater collection account outstanding and 2 tax liens that were placed in August 2019.

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218, which added Articles XIII C and XIII D to the State Constitution. This amendment changed the process for increasing property-related fees within the State and potentially affects the City's ability to impose future rate increases. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIII C and XIII D" herein. Proposition 218 conditions the imposition or increase of any wastewater service fee or charge upon there being no written majority protest after a required public hearing.

Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If written protests against the proposed rate increase are returned to the City no later than the end of the protest hearing by a majority of owners of the identified parcels, the City may not approve the proposed rate increase. If the protest fails with less than a majority protest, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form.

The City believes that it has followed the Proposition 218 process in connection with its wastewater related rate increases last approved on May 30, 2017, which included the rate increases each year through 2021. See also "RISK FACTORS – California Constitution Articles XIII C and XIII D" herein.

Comparative Rates

Table 5 below sets forth a comparison of average monthly bill (based on a typical single family residential unit – 1,300 cubic feet of monthly water use) for a single-family residential unit in the City to those of certain other communities in the surrounding area, based on rates in effect as of September 1, 2019.

**Table 5
WASTEWATER ENTERPRISE**

COMPARISON OF WASTEWATER SYSTEM RATES AND CHARGES	
<u>Community</u>	<u>Monthly Charge</u>

Source: City

Largest Wastewater Customers

The following Table 6 sets forth the 10 largest customers of the Wastewater Enterprise as of June 30, 2018, as determined by total annual billed wastewater revenue. The top wastewater users accounted for approximately % of total wastewater billings during this period.

**Table 6
WASTEWATER ENTERPRISE**

TEN LARGEST WASTEWATER CUSTOMERS		
<u>Customer</u>	<u>Billed Amount</u>	<u>% of Total Billings</u>
Lake Siskiyou Campground	\$65,472	
Mt Shasta Resort	58,836	
Tree House Motel	45,372	
Lake Siskiyou Mutual Water Co	44,280	
Mercy Hospital	38,328	
Shadow Mountain Mobile Home Park	26,536	
Chateau Shasta Trailer Park	21,769	
Alder Garden Apartments	20,868	
KOA	20,700	
Mt Shasta Associates	<u>18,612</u>	
Total Top Ten Customers	\$360,773	<u> </u>%
Total All Customers	\$	100%

Source: City.

Delinquent Accounts

The City considers its rates of payment delinquency, service discontinuance for non-payment and write-offs for uncollectible accounts to be low by wastewater industry standards for urban areas. The write-offs for uncollectible accounts for the last five Fiscal Years never exceeded ___% of gross billings.

Future Enterprise Improvements

See “FINANCING PLAN – Wastewater Project” herein for a description of the Wastewater Project improvements attributable to the Wastewater Enterprise being financed by the proceeds of the Bonds.

The City is currently in the process of replacing the WWTP’s existing pond-based treatment system and expanding its capacity to treat 0.9 MGD during dry conditions and up to 3.6 MGD during wet conditions (the “WWTP Rehabilitation Project”). The estimated overall project cost is \$19,496,000 and secured project funding sources are as follows:

City Contribution:	\$1,337,000
CWSRF Grant:	6,000,000
USDA Grant:	2,950,000
USDA Loan:	<u>9,209,000</u>
TOTAL:	\$19,496,000

Public bids for constructing the WWTP Rehabilitation Project were opened _____, 2019. A Notice to Proceed with construction is expected to be issued before the end of 2019, with final project completion expected by late 2021. The City intends to finance the WWTP Rehabilitation Project pursuant to an installment sale agreement in the principal amount of \$9,209,000 (the “2020 Installment Sale Agreement”).

In addition, the City has an ongoing capital improvement plan with respect to the Wastewater Enterprise in connection with upgrades and replacement of dated facilities, i.e., replacing aging pipelines, lateral replacements, wastewater treatment plant fence improvements, pump and pump station improvements, manhole rehabilitation work, additional office and storage facilities, and certain other miscellaneous improvements. The City anticipates funding these improvements from annual revenues, connection fees and other available funds of the Wastewater Enterprise; however, the City can incur future long-term indebtedness on parity with Installment Payments. See “SECURITY RELATING TO THE INSTALLMENT SALE AGREEMENT – Issuance of Additional Debt” herein for a discussion of conditions which must be satisfied prior to issuance of any future parity obligation.

Outstanding and Future Wastewater Enterprise Indebtedness

On the date of issuance of the Bonds, the Prior Obligations will be the only long-term outstanding indebtedness of the Wastewater Enterprise, which is secured by Net Revenues of the Wastewater Enterprise on parity with the Installment Payments Attributable to the Wastewater Enterprise. The City intends to finance the WWTP Rehabilitation Project with the proceeds of the 2020 Installment Sale Agreement, and may issue additional parity obligations of the Wastewater Enterprise, subject to certain conditions set forth in the Installment Sale Agreement. See “SECURITY RELATING TO THE INSTALLMENT SALE AGREEMENT – Issuance of Parity Obligations – Issuance of Parity Obligations” herein.

Historical Operating Results

The following Table 7 is a summary of audited operating results of the Wastewater Enterprise for Fiscal Years 2015-16 through 2017-18, as taken from the City's audited financial statements.

The results presented in the following table are qualified in their entirety by reference to the respective annual consolidated audited financial statements of the City, including the notes thereto. Copies of the audited financial statements for the City's other Fiscal Years can be obtained from the City.

Table 7
WASTEWATER ENTERPRISE

HISTORICAL OPERATING RESULTS			
	Audited 2016	Audited 2017	Audited 2018
OPERATING REVENUES			
Charges for Services	\$1,059,405	\$838,215	\$1,073,025
Total Operating Revenues	<u>\$1,059,405</u>	<u>\$838,215</u>	<u>\$1,073,025</u>
OPERATING EXPENSES			
Cost of Power and Water	\$90,550	\$83,237	106,168
Maintenance, Operation & Administration	767,667	1,073,828	692,885
Depreciation and Amortization	251,595	273,595	260,668
Total Operating Expenses	<u>\$1,109,812</u>	<u>\$1,430,660</u>	<u>\$1,059,721</u>
Operating Income (Loss)	<u>\$(50,407)</u>	<u>\$(592,445)</u>	<u>\$13,304</u>
NONOPERATING REVENUES (EXPENSES)			
Investment Revenue	\$782	\$2,193	\$2,808
Interest Expense	39,786!	(38,438)	(37,178)
Intergovernmental Revenues	147,115	387,431	--
Total Nonoperating Revenues (Expenses)	<u>\$108,111</u>	<u>\$351,186</u>	<u>\$(34,370)</u>
Net Income/(loss) Before Transfers	\$57,704	\$(241,259)	\$(21,066)
TRANSFERS/CAPITAL CONTRIBUTION IN/(OUT)	--	(1,172)	560,970
CHANGE IN NET POSITION	<u>\$57,704</u>	<u>\$(242,431)</u>	<u>\$539,904</u>
BEGINNING OF YEAR NET POSITION	<u>\$5,759,707</u>	<u>\$5,817,411</u>	<u>\$5,680,517⁽¹⁾</u>
END OF YEAR NET POSITION	<u>\$5,817,411</u>	<u>\$5,574,980</u>	<u>\$6,220,421</u>

(1) Wastewater billings had not been accrued in Fiscal Year 2016-17 which caused revenues and receivables to be understated. The effect of this correction is reported as an increase to Fiscal Year 2017-18 beginning net position in the amount of \$105,537.

Source: City's Audited Financial Statements

The following Table 8 shows historic operating results, debt service and debt service coverage for Fiscal Years 2016-17 through 2017-18 (audited), and 2018-19 (estimated).

**Table 8
WASTEWATER ENTERPRISE**

HISTORIC DEBT SERVICE COVERAGE			
	Audited 2016-17	Audited 2017-18	Unaudited 2018-19⁽¹⁾
<u>GROSS REVENUES</u>			
Charges for Services	\$943,752 ⁽²⁾	\$1,073,025	
Total Gross Revenues	\$943,752	\$1,073,025	
<u>OPERATION AND MAINTENANCE EXPENSES⁽³⁾</u>			
Cost of Power and Water	\$83,237	\$106,168	
Maintenance, Operation & Administration	1,073,828 ⁽⁴⁾	692,885	
Total Operation and Maintenance Expenses	\$1,157,065	\$799,053	
Net Revenues	\$(213,313)	\$273,972	
Other Nonoperating Revenues (Expenses) ⁽⁵⁾	2,193	2,808	
NET REVENUES AVAILABLE FOR DEBT SERVICE		\$276,780	
<u>DEBT SERVICE</u>			
2008 Installment Sale Agreement			
2019 Installment Sale Agreement			
Total Debt Service			
DEBT SERVICE COVERAGE			

(1) Figures for 2018-19 have not yet been audited.

(2) Includes the \$105,537 prior period adjustment—see footnote 1 of Table 7.

(3) Does not include Depreciation.

(4) Does not include a one-time _____.

(5) Does not include Interest Expense. Also, does not include any grant monies received.

Source: City

Projected Operating Results and Debt Service Coverage

The City's projected operating results for the Wastewater Enterprise for Fiscal Years 2018-19 through 2021-22 are set forth in the following Table 9, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to Table 9 below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

Table 9
WASTEWATER ENTERPRISE

PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE			
	Projected 2019-20	Projected 2020-21	Projected 2021-22
<u>GROSS REVENUES</u>			
Total Gross Revenues			
MAINTENANCE AND OPERATION EXPENSES⁽¹⁾			
Personnel Services			
Supplies, Materials and Repairs			
Total			
Net Revenues			
 DEBT SERVICE			
2008 Installment Sale Agreement			
2019 Installment Sale Agreement			
2020 Installment Sale Agreement			
Installment Payments*			
Total Debt Service*			
PROJECTED DEBT SERVICE COVERAGE*			

* Preliminary, subject to change.

(1) Assumes an annual cost escalation of approximately _%.

Source: City

CITY FINANCIAL INFORMATION

Budget Process

Budget Process and Budgetary Control. The City operates on a Fiscal Year that begins on the first day of July of each year and ends on the thirtieth day of June the following year (the “Fiscal Year”). Each Fiscal Year the City prepares a balanced budget that incorporates the revenues and expenditures associated with providing services to the community, including capital investments to City infrastructure. The City’s annual budget serves as the foundation for the City of Mount Shasta’s financial planning and control system. The City Manager presents a proposed budget to the City Council each year and the City Council holds public hearings on the proposed budget and then ultimately adopts a formal budget by resolution (the “Adopted Budget”). The budget is adopted by fund, department, and object. The City Manager and Finance Department staff periodically review the Adopted Budget compared to actual revenues received and expenditures incurred and prepares mid-cycle budget adjustments for Council’s review and approval to provide minor adjustments to the Adopted Budget. The Finance Department is responsible for setting up the budget for tracking purposes and is charged with ensuring fund availability during the year to cover expenditures and appropriations. Reports comparing the budget with expenditures are generated and sent to departments on a monthly basis.

Long-Term Financial Planning. The City incorporates long-term financial planning into its budget process in several ways.

- First, the City has established a set of financial policies that establish goals for the allocation of public resources in the manner best suited to the efficient provision of services to citizens and visitors present within the City. Some of these policies call for maintaining adequate cash reserves and providing on-going maintenance of infrastructure and buildings, which are vital to sound fiscal management.
- Second, the Council undertakes a strategic planning process to establish goals and priorities for the organization after taking into account public input. Specifically, the Council engaged the community at a public hearing and by soliciting ideas and input through a variety of means. Based on this input, the City Council adopts goals, objectives, and resources permit objectives.
- Third, the City maintains a long-range capital planning process that helps drive annual capital funding decisions as well as periodic bond issues for larger investments.
- Finally, all Governmental Accounting Standards Board pronouncements are monitored and implemented into the City’s financial statements.

Current Budget and Historical Budget Information. Set forth in Table 10 are the General Fund budgets that were adopted for Fiscal Years 2015-16 through 2017-18 compared to the audited final results for Fiscal Years 2015-16 and 2016-17. During the course of each Fiscal Year, the budget may be amended and revised as necessary by the City Council.

**Table 10
CITY OF MOUNT SHASTA**

GENERAL FUND BUDGETS COMPARED TO AUDITED RESULTS							
	Adopted Fiscal Year 2016-17 Budget	Fiscal Year 2016-17 Audited Results	Adopted Fiscal Year 2017-18 Budget	Fiscal Year 2017-18 Audited Results	Adopted Fiscal Year 2018-19 Budget	Estimated Fiscal Year 2018-19 Unaudited Results⁽¹⁾	Adopted Fiscal Year 2019-20 Budget
Revenues:							
Taxes and Assessments	\$2,538,000	\$2,807,447	\$2,626,500	\$2,897,587			
Franchise Fees	67,000	69,622	69,000	72,426			
Licenses and Permits	28,250	27,225	34,550	33,361			
Intergovernmental Revenues	9,700	5,514	9,700	15,320			
Charges for Services	29,850	59,161	35,350	214,952			
Fines & Forfeitures	19,000	21,648	30,000	15,352			
Other Revenue	428,015	530,180	535,019	55,706			
Total Revenue	\$3,119,815	\$3,520,797	\$3,340,119	\$3,304,704			
Expenditures:							
City Council	\$22,699	\$20,823	\$32,168	\$30,248			
City Administration	214,319	175,618	204,350	166,998			
Finance and Personnel	348,034	378,139	369,424	181,917			
City Attorney	27,000	18,751	29,500	44,737			
Fire Protection	514,869	545,649	550,455	550,626			
Police Protection	773,764	876,027	825,221	818,302			
Public Safety Dispatching	219,067	246,753	257,318	248,892			
Animal Control	40,027	47,932	44,531	40,199			
Planning	105,601	94,785	123,653	102,418			
Public Works	650,923	785,097	644,620	644,159			
Insurance	134,820	132,511	122,620	137,710			
Community Development	155,277	170,125	123,688	121,242			
Other	155,922	159,282	324,270	218,284			
Capital Outlay	47,000	1,225	72,771	59,260			
Total Expenditures	\$3,409,322	\$3,652,717	\$3,724,589	\$3,346,566			
Revenue Over (Under)							
Expenditures	\$(289,507)	\$(131,920)	\$(384,470)	\$(41,862)			
Other Financing Sources (Uses):							
Transfers in	\$152,500	\$89,712	\$152,000	\$157,290			
Transfers out	(75,000)	(348)	--	--			
Total Other Financing Uses	\$77,500	\$89,364	\$152,000	\$157,290			
Excess of Revenues over (under)							
Expenditures	\$(210,607)	\$(42,556)	(232,470)	\$115,428			

(1) As of June 30, 2019.

Sources: Audited Financial Statements for Fiscal Years 2016-17 and 2017-18, Adopted Budgets for Fiscal Years 2016-17 through 2019-20 and the City's estimate of unaudited results for Fiscal Year 2018-19.

Financial Reporting

The City Council employs, at the beginning of each Fiscal Year, an independent certified public accounting firm which, at such time or times as specified by the City Council, at least annually, at such other times as such firm shall determine, examines the books, records, inventories and reports of all officers and employees who receive, control, handle or disburse public funds and of all such other officers, employees or departments as the City Council may direct. As soon as practicable after the end of the Fiscal Year, a report is submitted by such firm to the City Council and a copy of the financial statements as of the close of the Fiscal Year is published.

The Governmental Accounting Standards Board (“GASB”) published its Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, on June 30, 1999 (“GASB Statement No. 34”). GASB Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management’s Discussion and Analysis; (ii) government-wide financial statements prepared using the economic measurement focus and the accrual basis of accounting and fund financial statements prepared using both the current financial resources measurement focus and the modified accrual method of accounting (governmental funds) and funds using the economic measurement focus and the accrual basis of accounting (proprietary funds) and (iii) required supplementary information. The City’s financial statements are prepared in conformance with the requirements of GASB Statement No. 34.

General Fund Revenues and Expenditure

The City’s General Fund is its primary operating fund, and is where the City accounts for all its general-purpose revenues. It is distinguished from the City’s other governmental funds that are used to account for special purpose revenues, capital projects, debt service activities, and monies held for the benefit of others.

The General City Budget includes programs which are provided on a largely city-wide basis. The programs and services are financed primarily by the City’s share of sales tax, property tax, revenues from the State and/or federal government, and charges for services provided.

The three major or general fund revenue sources of the City, which together accounted in Fiscal Year 2017-18 for about 87% of the general fund revenues (collectively, the “Key Revenue Sources”), are the Sales Tax (48% of total general fund revenues), Transient Occupancy Tax (23% of total general fund revenues) and Property Tax (16% of total general fund revenues). See “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2017-18” herein.

The following Table 11 sets forth the audited revenues received by the City for each of the Key Revenue Sources for Fiscal Years 2012-13 through 2016-17, which have been totaled and compared to the prior Fiscal Year to illustrate the amount and percent of change.

Table 11
CITY OF MOUNT SHASTA
FISCAL YEARS 2012-13 THROUGH 2018-19

GENERAL FUND KEY REVENUE SOURCES AND CHANGE FROM PRIOR YEAR⁽¹⁾						
Fiscal Year	Sales Taxes	Transient Occupancy Taxes	Property Taxes	Total of Key Tax Sources	Change from Prior Year	
					Amount	Percent
2013	\$1,323,484	\$575,781	\$478,975	\$2,378,240	N/A	N/A
2014	1,339,371	545,848	484,106	2,369,325	\$(8,915)	-0.38%
2015	1,365,769	635,723	475,835	2,477,327	108,002	4.56
2016	1,525,270	714,239	484,375	2,723,884	246,557	9.95
2017	1,536,072	755,879	515,496	2,807,447	83,563	3.07
2018	1,600,085	764,137	533,365	2,897,587	90,140	3.21

(1) Includes transfers in from other funds.

(2) Based upon unaudited actual results, calculated by the City as of June 19, 2019.

Source: The City

The following Table 12 sets forth the audited revenues received by the City for the total of Key Revenue Sources and total of Other General Fund Revenue Sources for Fiscal Years 2012-13 through 2017-18, and the unaudited estimated actual revenue expected to be received by the City for each of the Key Revenue Sources and total of Other General Fund Revenue Sources for Fiscal Year 2018-19, which have been totaled and compared to the prior Fiscal Year to illustrate the amount and percent of change.

Table 12
CITY OF MOUNT SHASTA
FISCAL YEARS 2012-13 THROUGH 2018-19

SUMMARY OF GENERAL REVENUES AND CHANGE FROM PRIOR YEAR					
Fiscal Year	Total of Key Tax Sources⁽¹⁾	Other General Fund Revenues	Total General Fund Revenues	Change From Prior Year	
				Amount	Percent
2013	\$2,378,240	483,570	\$2,861,810	N/A	N/A
2014	2,369,325	466,853	2,836,178	\$(25,632)	0.90%
2015	2,477,327	526,900	3,004,227	168,049	5.93
2016	2,723,884	759,556	3,483,440	479,213	15.95
2017	2,807,447	713,350	3,520,797	37,357	1.07
2018	2,897,587	407,117	3,304,704	(216,093)	-6.54

(1) Comprised of the Transient Occupancy Tax, Sales Tax and Property Tax totals set forth in Table 11, above.

(2) Based upon unaudited actual results, calculated by the City as of June 30, 2019.

Source: The City

Sales Taxes

Sales taxes were the largest category of revenue source (\$1,600,085) to the City, constituting approximately 48% of the City’s annual General Fund income (\$3,304,704) for the 2017-18 Fiscal Year. In Fiscal Year 2016-17, the Sales Tax generated \$1,536,072 in General Fund revenues, or approximately 47% of the City’s total General Fund revenue for that period. The City’s sales tax revenue represents the City’s share of the sales and use tax, imposed on taxable transactions occurring within the City’s boundaries.

The following Table 13 sets forth the City-generated taxable sales data for Calendar Years 2010 through the first quarter of 2018.

**Table 13
CITY OF MOUNT SHASTA
(Calendar Years 2010 Through 2018)**

TAXABLE SALES DATA		
Calendar Year	Taxable Sales (Retail and Food Service)	Taxable Sales (All Outlets)
2010	\$55,617,000	\$71,441,000
2011	56,968,000	76,461,000
2012	56,173,000	74,345,000
2013	57,081,000	77,138,000
2014	56,357,000	76,821,000
2015	62,271,000	84,628,000
2016	63,028,000	84,483,000
2017	67,155,000	90,755,027
2018 ⁽¹⁾	12,927,000	20,848,000

(1) Reflects first quarter data only.

Source: California State BOE (2010-2016) and California Dept. of Tax and Fee Administration (2017-2018).

Sales Tax Rates. The City collects a percentage of taxable sales in the City (minus certain administrative costs imposed by California Department of Tax and Fee Administration (“CDTFA”)) pursuant to the Bradley-Burns Uniform Local Sales and Use Tax (the “Sales and Use Tax Law”).

As part of the State’s Fiscal Year 2003-04 Budget, the State Legislature authorized, and the voters of the State approved, a redirection to the State from local jurisdictions (including the City) of sales tax revenues in the amount of 0.25% of the basic 1.0% local sales tax rate, starting July 1, 2004. The State uses such revenues to pay the State’s economic recovery bonds. Under the California Economic Recovery Act, which includes legislation commonly referred to as the “Triple Flip”, the State redirected certain property taxes in the Education Augmentation Revenue Fund to local governments, including the City, to compensate for this redirection of sales taxes on a “dollar for dollar” basis. The “Triple Flip” ended in Fiscal Year 2015-16.

Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The Sales Tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax.

Certain transactions are exempt from the State sales tax, including sales of the following products: food products for home consumption; prescription medicine; newspapers and periodicals; edible livestock and their feed; seed and fertilizer used in raising food for human consumption; and gas, electricity and water when delivered to consumers through mains, lines and pipes. This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization's July 2014 Publication No. 61 entitled "Sales and Use Taxes: Exemptions and Exclusions," which can be found on the State Board of Equalization's website at <http://www.boe.ca.gov/>. The City and the Authority do not take any responsibility for the continued accuracy of the foregoing internet address or for the accuracy, completeness or timeliness of information on such website, and such information is not incorporated herein by this reference.

Sales Tax Collection. Collection of the State sales tax, including Measure U, is administered by the CDTFA. The Taxpayer Transparency and Fairness Act of 2017 restructured the Board of Equalization into three separate entities: the State Board of Equalization, the CDTFA and the Office of Tax Appeals. The CDTFA handles most of the taxes and fees previously collected by the Board of Equalization, including, as of July 1, 2017, the Measure U Tax. Pursuant to its procedures, the CDTFA projects receipts of the sales and use taxes on a quarterly basis and remits receipts to the City each month based on such projection. The amount of each monthly advance is based upon the CDTFA's quarterly projection. During the second month of each quarter, the CDTFA adjusts the amount remitted to reflect the actual receipts of the sales and use taxes for the previous quarter less administration costs. CDTFA receives an administrative fee based on the cost of services to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

Transient Occupancy Tax

In general, Transient Occupancy Tax revenues are equal to ___% of the rent charged by all lodging businesses for a person exercising occupancy for 30 consecutive calendar days or less, paid monthly to the City. The Transient Occupancy Tax revenue is the second largest source of revenue (\$764,137) to the City, constituting approximately 23% of the City's budgeted annual General Fund income (\$3,304,704) for the 2017-18 Fiscal Year. In Fiscal Year 2016-17, the Transient Occupancy Tax generated \$755,879 in General Fund revenues, or approximately 22% of the City's total General Fund revenue for that period. Since Fiscal Year 2010-11 Transient Occupancy Tax receipts have trended steadily upward in each of the years, as shown in Table 11 above.

Property Taxes

Property tax revenue is the third largest source of revenue to the City, constituting approximately 16% of the City's budgeted annual General Fund income (\$533,365) for the 2017-18 Fiscal Year. In Fiscal Year 2016-17, the property tax levies generated \$515,496 in General Fund revenues, or approximately 16% of the City's total General Fund revenue for that period.

Tax Levies and Delinquencies. Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1 of the Fiscal Year. The City has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Teeter Plan. The Board of Supervisors of the County has approved the implementation of 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, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The Teeter Plan is applicable to all tax levies on secured property for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections, which includes the City.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County 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 joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent Fiscal Year.

If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from ad valorem property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES" herein.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

Proposition 13 and Proposition 8 Property Value Adjustments. Proposition 13, passed in 1978, established the base year value concept for property tax assessments. Under Proposition 13, the 1975-1976 Fiscal Year serves as the original base year used in determining the assessment for real property. Thereafter, annual increases to the base year value are limited to the inflation rate, as measured by the California Consumer Price Index, or 2%, whichever is less. A new base year value, however, is established whenever a property, or portion thereof, has had a change in ownership or has been newly constructed.

Proposition 8, enacted in 1978, allows for a temporary reduction in assessed value when a property suffers a “decline-in-value.” As of January 1st (lien date) each year, the Assessor must enroll either a property’s Proposition 13 value (adjusted annually for inflation by no more than 2%) or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 value, the lower value is commonly referred to as a “Proposition 8 Value.” “Proposition 8 values” are temporary and, once enrolled, must be reviewed annually by the assessor until the Proposition 13 adjusted base year value is enrolled.

Assessed Valuation History. Table 14 below presents the assessed valuation of taxable property in the City from Fiscal Year 2009-10 through Fiscal Year 2018-19.

**Table 14
CITY OF MOUNT SHASTA
FISCAL YEARS 2009-10 THROUGH 2018-19**

ASSESSED VALUATIONS OF ALL TAXABLE PROPERTY				
<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				
2018				
2019				

Source: California Municipal Statistics Inc.

Top Tax Payers. The top ten taxpayers, based on local secured assessed values of taxable property in the City, as shown on the 2018-19 tax roll, are set forth in the following Table 15:

**Table 15
CITY OF MOUNT SHASTA**

TOP 10 LARGEST 2018-19 LOCAL SECURED TAXPAYERS			
	<u>Property Owner</u>	<u>Land Use</u>	<u>Assessed Valuation</u>
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

(1) 2018-19 Local Secured Assessed Valuation: \$ _____.
 Source: California Municipal Statistics Inc.

Financial Statements

The City’s accounting policies conform to generally accepted accounting principles and reporting standards set forth by the State Controller. The audited financial statements also conform to the principles and standards for public financial reporting established by the National Council of Government Accounting and the Governmental Accounting Standards Board (“GASB”).

Basis of Accounting and Financial Statement Presentation. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

General Fund Historical Financial Data

The following Tables 16 and 17 provide a three-year history of (i) the City’s General Fund revenues, expenditures, and changes in fund balances for Fiscal Years 2015-16 through 2017-18, and (ii) the City’s Comparative Balance Sheet for Fiscal Years 2015-16 through 2017-18.

Table 16
CITY OF MOUNT SHASTA
HISTORICAL GENERAL FUND DATA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE			
	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Revenues:			
Property taxes	\$484,375	\$515,496	\$533,365
Sales and use taxes	1,525,270	1,536,072	1,600,085
Transient occupancy tax	714,239	755,879	746,137
Franchises	68,042	69,622	72,426
Licenses and permits	43,162	27,225	33,361
Intergovernmental revenues	143,226	5,514	15,320
Charges and services	46,977	59,161	214,952
Fines, forfeitures and penalties	20,983	21,648	15,352
Use of money and property	911	--	5,772
Other and administrative	436,255	530,180	49,934
Total Revenue	\$3,483,440	\$3,520,797	\$3,304,704
Expenditures:			
City Council	\$19,725	20,823	30,248
City administrative	188,581	168,611	136,750
City Clerk	6,147	7,007	11,822
Finance and personnel	352,405	378,139	181,917
City Attorney	14,790	18,751	44,737
Fire protection	380,414	545,649	550,626
Police protection	822,018	876,027	818,302
Public safety dispatch	214,770	246,753	248,892
Animal regulation	38,554	47,932	40,199
Planning	97,573	94,785	102,412
Public works	673,478	784,097	644,159
Insurance	158,376	132,511	137,710
Community development	118,299	170,125	121,242
Other	165,955	1,225	218,284
Capital outlay	217,496	--	59,260
Total Expenditures	\$3,468,581	\$3,652,717	\$3,346,566
Revenue Over (Under) Expenditures	\$14,859	\$(131,920)	\$(41,862)
Other Financing Sources (Uses):			
Transfers In	\$70,000	\$89,364	\$157,290
Transfers Out	(17,995)	(348)	--
Total Other Financing Sources (Uses)	\$52,005	\$89,364	\$157,290
Excess of Revenues over (under) Expenditures	\$66,864	\$(42,556)	\$115,428
Fund Balance:			
Beginning of Fiscal Year	\$903,199	\$970,063	\$1,163,074⁽¹⁾
Fund Balance End of Fiscal Year	\$970,063	\$927,507	\$1,278,502

(1) Sales taxes had not been accrued in the 2016-17 Fiscal Year, which caused revenues and receivables to be understated. The effect of this correction is reported as an increase to beginning fund balance in the amount of \$235,567 in the general fund.

Source: City's Audited Financial Statements

Table 17
CITY OF MOUNT SHASTA
HISTORICAL GENERAL FUND DATA
FISCAL YEARS 2013-2014 THROUGH 2017-18

BALANCE SHEET			
	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Assets:			
Cash and Cash Investments	\$738,573	\$761,886	\$1,102,100
Receivables			
Interest	--	2,962	2,447
Taxes	150,931	125,781	331,342
Intergovernmental	271,528	85,945	94,064
Special assessments	31,185	25,200	26,729
Prepaid expenses	23,400	24,700	23,625
Due from other Funds	67,887	266,928	45,434
Total Assets	<u>\$1,283,504</u>	<u>\$1,293,402</u>	<u>\$1,625,751</u>
Liabilities:			
Accounts Payable	\$136,349	\$134,992	\$142,750
Accrued Liabilities	128,146	168,539	124,984
Unearned Revenues	48,946	62,364	79,515
Total Liabilities	<u>313,441</u>	<u>365,895</u>	<u>347,249</u>
Fund Balance:			
Nonspendable	\$35,000	\$30,000	\$25,000
Committed	62,005	135,780	119,262
Unassigned ⁽¹⁾	873,058	761,727	1,278,502
Total Fund Balances	<u>\$970,063</u>	<u>\$927,507</u>	<u>\$1,278,502</u>
Total Liabilities and Fund Balance	<u>\$1,283,504</u>	<u>\$1,293,402</u>	<u>\$1,625,502</u>

(1) The Unassigned Fund Balance are funds available for any lawful purpose as budgeted by the City Council. These funds are accumulated fund balances from operational savings that are used to support one-time investments.

Source: City's Audited Financial Statements

Relevant Fiscal Policies

The City has adopted a comprehensive set of fiscal policies to provide guidance for all fiscal activities and resource allocation decisions as defined in the Adopted Budget. The policies set forth guidelines for both current activities and long-range planning. In addition, the City Council approved or adopted several other fiscal policies including:

- City's Investment Policy, adopted most recently in ____1__20__.
- Debt Management Policy adopted September 23, 2019.

The following are certain highlighted aspects of the adopted policies.

City Investment Policy. The City invests its funds in accordance with the City's Investment Policy, in accordance with Section 53600 et seq. of the State Government Code. Idle cash management and investment transactions are the responsibility of the City Manager and City Treasurer. The Investment Policy sets forth the policies and procedures applicable to the investment of City funds and designates eligible investments. The Investment Policy's stated overarching purpose is to (i) ensure that public funds are invested in such a manner as to comply with state and local laws; (ii) ensure prudent money management; (iii) provide for daily cash flow requirements; and (iv) meet the objectives of the Investment Policy (per California Government Code Section 53600.5) in the following order of priority:

1. Safety of Principal: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City strives to diversify its investments by investing funds among a variety of securities with independent returns.

2. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Maturities of investments are selected in anticipation of disbursement needs, thereby obviating the need for forced liquidation or lost interest penalties.

3. Return on Investments: The City's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the City's investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio.

Risk Management

June 30, 2018 Cash and Investments. The City follows the practice of pooling cash of all funds, unless the funds are required by law, debt covenant or other instrument to be held in a separate account. Interest income on pooled cash invested is allocated quarterly to the various funds based on the same proportion that such funds bear to the total monies invested. Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Position	\$4,599,254
Statement of Fiduciary Net Position	<u>21,196</u>
Total Cash and Investments	\$4,620,450

Consisting of the following:

Cash on Hand	\$300
Deposits with Financial Institutions	2,978,561
LAIF	<u>1,641,589</u>
Total	\$4,620,450

Interest Rate Risk. While the City’s investment policy does not address interest rate risk, the City manages its exposure to interest rate risks through reliance on the managers of the Local Agency Investment Fund (LAIF) for its investment in those funds and the Finance Director and City Treasurer for the City’s investment in money market accounts and certificates of deposit.

Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have such a rating.

Concentration of Credit Risk. The investment policy of the City contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5 percent or more of total City investments or reporting unit.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code has provisions for financial institutions that limit custodial credit risk for deposits. Financial institutions are required to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City’s financial institutions also have insurance through the Federal Depository Insurance Corporation (FDIC). The City’s investment policy has no additional provisions for limiting custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer’s custodial agent in the City’s name.

The City’s balance in banks was \$2,748,848, all of which was covered by federal depository insurance, or the collateral requirements discussed in the preceding paragraph. The bank balance differs from the book balance of \$2,978,561 because of outstanding checks.

Equity in Pooled Cash and Investment. The City invests funds in the State Treasurer’s Pooled Money Investment Account (PMIA) through LAIF, a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the City’s position in the pool is materially equivalent to the value of pool shares. LAIF is an unrated external investment pool.

In accordance with authorized investment laws, the State Treasurer’s Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2018, 2.67% of LAIF’s investment portfolio was invested in structured notes and other asset backed securities. In addition, PIMA’s weighted average maturities was 0.68 years at June 30, 2018. (Copies of a report of LAIF’s investments may be obtained from the State Treasurer’s Office; Local Agency Investment Fund; P.O. Box 942809; Sacramento, CA 94209-0001.)

Employee Retirement System; CalPERS

The following information relating to the CalPERS is primarily derived from information produced by CalPERS, its independent accountants and actuaries, as interpreted by the City and its Auditor. The City and the Authority have not independently verified the information provided by CalPERS and make no representations nor express any opinion as to the accuracy of the information provided by CalPERS. The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS’ most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference herein. None of the City the Authority nor the Underwriter can guarantee the accuracy of such information.

Actuarial assessments are forward-looking statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans. See “RISK FACTORS – Pension Benefit Liability” herein.

Implementation of GASB Nos. 68 and 71. In June 2012 and November 2013, the Governmental Accounting Standards Board issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (“GASB Statement No. 68”) and GASB No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68 (“GASB Statement No. 71”), respectively. The primary objective of GASB Statement No. 68, as amended, is to improve accounting and financial reporting by state and local governments for pensions and improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

GASB Statement No. 68, as amended, revised the accounting treatment of defined benefit pension plans, changing the way expenses and liabilities are calculated and how state and local government employers report those expenses and liabilities in their financial statements. Major changes include: (i) the inclusion of unfunded pension liabilities on the government’s balance sheet (previously, such unfunded liabilities were typically included as notes to the government’s financial statements); (ii) pension expense incorporates more rapid recognition of actuarial experience and investment returns and is no longer based on the employer’s actual contribution amounts; (iii) lower actuarial discount rates that are required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities that are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns to will be recognized over a closed five-year smoothing period. The reporting requirements took effect in fiscal year 2014-15. Based on the adoption of the

new accounting standards, beginning with the fiscal year 2014-15 actuarial valuation, the annual required contribution and the annual pension expense will be different. GASB Statement No. 68, as amended, changes the reporting and disclosure requirements for financial statement accounting purposes, but it does not change the City's pension plan funding obligations and, therefore, had no effect on the City's General Fund.

Certain information shown in this section has been sourced from a CalPERS Actuarial Valuation Report which has not been prepared in accordance with GASB Statement No. 68, as amended.

Plan Description. The City contributes to the California Public Employees' Retirement System ("CalPERS"), a cost sharing multiple-employer public employee defined benefit pension plan. All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (Police), Safety (Fire) and Miscellaneous (all other) Employee Pension Plans (the "Pension Plans").

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City. Benefit provisions under the Pension Plans are established pursuant to State statute and City ordinance.

CalPERS issues publicly available financial reports that include the financial statements and required supplementary information for the CalPERS. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, projections of contributions of plan participants (including the City), assumptions and membership information that can be found on the CalPERS website. Copies of CalPERS' annual financial report may be obtained from its executive office located at 400 Q Street, Sacramento, California 95811, or via <http://www.calpers.ca.gov>.

The City participates in the Safety and Miscellaneous CalPERS cost sharing multiple-employer plans. The Safety plans consists of Police Classic, and Police Public Employee Pension Reform Act (PEPRA). The Miscellaneous plans consist of Miscellaneous Classic and Miscellaneous PEPRA.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 to 52 years with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is of the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Effective January 1, 2013, CalPERS instituted a new pension plan as a result of PEPRA. Employees hired from that date on are subject to the new 2% at 62 benefit formula. The 2.5% at 55 benefit formula has been closed to new hires from January 1, 2013 on, unless they meet the rules for a CalPERS Classic employee. A Classic employee is already CalPERS member through prior employment and was employed by a CalPERS member within the last 6 months. See the CalPERS website for more information.

The provisions and benefits for each Pension Plan in effect at June 30, 2018, are summarized as follows:

Miscellaneous

<u>Hire Date</u>	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit formula	2.00% @ 55	2.00% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	52 - 67
Monthly benefits, as a % of eligible	2.00% to 2.50%	1.00% to 2.50%
Required employee contribution rates	7.00%	6.555%
Required employer contribution rates	8.337%	6.555%

Source: City's 2017-18 Audited Financial Statements.

Safety

<u>Hire Date</u>	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit formula	2.00% @ 50	2.70% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	50-57
Monthly benefits, as a % of eligible	2.00%	2.00% to 2.70%
Required employee contribution rates	9.00%	12.082%
Required employer contribution rates	14.785%	12.082%

Source: City's 2017-18 Audited Financial Statements.

Contributions. Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Pension Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The actuarially determined rates and amounts for each Pension Plan for the fiscal years ended June 30, 2019 and June 30, 2020, are as follows:

CITY'S REQUIRED EMPLOYER CONTRIBUTION RATES & PAYMENTS

Pension Plan	Fiscal Year 2018-19			Fiscal Year 2019-20		
	Employer Normal Cost Rate	Employer Normal Cost Payment	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Normal Cost Payment	Employer Payment of Unfunded Liability
Miscellaneous	08.892%	\$56,513	\$145,168	09.680%	\$58,853	\$121,233
Safety-Police	15.719%	66,639	71,622	16.636%	72,325	91,098
Safety-Fire	15.719%	18,021	12,134	16.636%	19,397	14,970
Miscellaneous - PEPRA	06.842%	33,343	467	06.985%	37,105	939
Safety (Police) - PEPRA	12.141%	47,864	1,024	13.034%	50,432	1,053
Safety (Fire) - PEPRA	12.141%	19,595	869	13.034%	21,404	1,558
Totals		\$241,975	\$231,284		\$359,516	\$230,851

Source: CalPERS Annual Valuation Report as of June 30, 2017.

Funding History. The funding history for the Miscellaneous Pension Plan and the Safety (Police and Fire) Pension Plans is shown in the tables below, listing for each plan the actuarial accrued liability, share of the pool's market value of assets, share of the pool's unfunded liability, funded ratio, and annual covered payroll.

MISCELLANEOUS PLAN

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/13	\$6,124,806	\$4,799,500	\$1,325,306	78.4%	\$859,742
06/30/14	6,869,461	5,694,218	1,175,243	82.9%	711,241
06/30/15	7,145,917	5,671,079	1,474,838	79.4%	778,325
06/30/16	7,342,878	5,402,353	1,940,525	73.6%	581,615
06/30/17	7,685,367	5,789,869	1,895,498	75.3%	558,424

Source: CalPERS Annual Valuation Report as of June 30, 2017.

SAFETY PLAN--POLICE

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/13	\$4,205,134	\$3,380,179	\$824,955	80.4%	\$348,187
06/30/14	4,707,600	3,949,051	758,549	83.9%	353,416
06/30/15	4,925,804	3,904,274	1,021,530	79.3%	374,772
06/30/16	5,193,718	3,817,335	1,376,383	73.5%	387,967
06/30/17	5,561,411	4,157,093	1,404,318	74.7%	399,308

Source: CalPERS Annual Valuation Report as of June 30, 2017.

SAFETY PLAN--FIRE

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/13	\$464,007	\$342,559	\$121,448	73.8%	\$110,111
06/30/14	548,143	438,446	109,697	80.0%	113,143
06/30/15	816,532	670,441	146,091	82.1%	69,574
06/30/16	854,899	651,318	203,581	76.2%	104,914
06/30/17	908,543	703,578	204,965	77.4%	107,090

Source: CalPERS Annual Valuation Report as of June 30, 2017.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions. As of June 30, 2018, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Pension Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$2,029,717
Safety	<u>\$1,630,608</u>
Total Net Pension Liability	\$3,660,325

The City's net position liability for each Pension Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Pension Plans is measured as of June 30, 2018, and the total pension liability for each Pension Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures.

The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the Pension Plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Pension Plan as of June 30, 2017 and 2018 was as follows:

<u>Proportionate Share</u>	<u>Miscellaneous</u>	<u>Safety</u>
Percentage Share at June 30, 2017	0.05107%	0.02704%
Percentage Share at June 30, 2018	0.05149%	0.02729%
Change - Increase (Decrease)	0.00042%	0.00025%

For the year ended June 30, 2018, the City recognized net pension expense of \$56,148. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	All Pension Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$21,817	\$44,004
Changes in assumptions	614,880	47,016
Change in employer's proportion	44,244	83,411
Difference between employer's actual contributions and employer's proportionate share of contributions	--	186, 348
Net differences between projected and actual earnings on pension plan investments	136,813	--
Pension contributions made subsequent to the measurement date	353,005	--
Total	<u>\$1,170,759</u>	<u>\$360,779</u>

The amount of \$353,005 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the miscellaneous and safety plans, respectively, will be recognized as reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

All Pension Plans	
Measurement Period Ended June 30	Amount
2018	\$ 6,623
2019	323,284
2020	207,776
2021	(80,710)
Total	<u>\$ 456,973</u>

Actuarial Methods and Assumptions. At its December 2016 meeting, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations. The minimum employer contributions for Fiscal Year 2019-20 determined in this valuation were calculated using a discount rate of 7.25 percent. The decision to reduce the discount rate was primarily based on reduced capital market assumptions provided by external investment consultants and CalPERS investment staff. The specific decision adopted by the Board reflected recommendations from CalPERS staff and additional input from employer and employee stakeholder groups. Based on the investment allocation adopted by the Board and capital market assumptions, the reduced discount rate assumption provides a more realistic assumption for the long-term investment return of the fund.

On December 19, 2017, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumption for public agencies. These new assumptions are incorporated in the actuarial valuation used by CalPERS and will impact the required contribution for FY 2019-20. In addition, CalPERS Board adopted a new asset portfolio as part of its Asset Liability Management. The new asset mix supports a 7.00 percent discount rate. The reduction of the inflation assumption will be implemented in two steps in conjunction with the decreases in the discount rate. For the June 30, 2017 valuation an inflation rate of 2.625 percent will be used and a rate of 2.50 percent in the for the June 30, 2018 valuation.

Notwithstanding the Board’s decision to phase into a 7.0 percent discount rate, subsequent analysis of the expected investment return of CalPERS assets or changes to the investment allocation may result in a change to this three-year discount rate schedule.

Subsequent Events. The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

For inactive employers the new amortization policy imposes a maximum amortization period of 15 years for all unfunded accrued liabilities effective June 30, 2017. Furthermore, the plan actuary has the ability to shorten the amortization period on any valuation date based on the life expectancy of plan members and projected cash flow needs to the plan. The impact of this has been reflected in the current CalPERS valuation results.

The contribution requirements determined in most current CalPERS actuarial valuation report are based on demographic and financial information as of June 30, 2017. Changes in the value of assets subsequent to that date are not reflected. Investment returns below the assumed rate of return will increase the retired contribution, while investment returns above the assumed rate of return will decrease the retired contribution.

This actuarial valuation report reflects statutory changes, regulatory changes and CalPERS Board actions through January 2018. Any subsequent changes or actions are not reflected.

Analysis of Discount Rate Sensitivity. Shown below are various valuation results as of June 30, 2017 assuming alternate discount rates. Results are shown using the current discount rate of 7.25 percent as well as alternate discount rates of 6.0 percent, 7.0 percent, and 8.0 percent. The alternate rate of 7.0 percent was selected by CalPERS since this rate represents the final discount rate at the end of the three-year phase-in of the reduction in this assumption. The rates of 6.0 percent and 8.0 percent were selected by CalPERS since they illustrate the impact of a 1 percent increase or decrease to the 7.0 percent assumption. This analysis shows the potential plan impacts if the particular plan were to realize investment returns of 6.0 percent, 7.0 percent, or 8.0 percent over the long-term.

<u>MISCELLANEOUS PLAN</u>				
<u>As of June 30, 2017</u>	<u>Plan’s Total Normal Cost</u>	<u>Accrued Liability</u>	<u>Unfunded Accrued Liability</u>	<u>Funded Status</u>
7.25% (current discount rate)	16.586%	\$7,685,367	\$1,895,498	75.3%
6.0%	21.483%	8,886,692	3,096,823	65.2%
7.0%	17.250%	7,889,704	2,099,835	73.4%
8.0%	14.006%	7,061,226	1,271,357	82.0%

SAFETY PLAN--POLICE

<u>As of June 30, 2017</u>	<u>Plan's Total Normal Cost</u>	<u>Accrued Liability</u>	<u>Unfunded Accrued Liability</u>	<u>Funded Status</u>
7.25% (current discount rate)	25.575%	\$5,561,411	\$1,404,318	74.7%
6.0%	33.132%	6,478,812	2,321,719	64.2%
7.0%	26.635%	5,716,516	1,559,423	72.7%
8.0%	21.649%	5,092,501	935,408	81.6%

SAFETY PLAN--FIRE

<u>As of June 30, 2017</u>	<u>Plan's Total Normal Cost</u>	<u>Accrued Liability</u>	<u>Unfunded Accrued Liability</u>	<u>Funded Status</u>
7.25% (current discount rate)	25.575%	\$908,543	\$204,965	77.4%
6.0%	33.132%	1,052,904	349,326	66.8%
7.0%	26.635%	933,198	229,620	75.4%
8.0%	21.649%	834,343	130,765	84.3%

Asset Volatility Ratio (AVR). Plans that have higher asset-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return. For example, a plan with an asset-to-payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset-to-payroll ratio of 4. Shown below is the asset volatility ratio for the Miscellaneous Plan and the Safety Plan, which a measure of each plan's current contribution volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio (LVR). Plans that have higher liability-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return and changes in liability. For example, a plan with a liability-to-payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability-to-payroll ratio of 4. The liability volatility ratio is also shown in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility. The asset volatility ratio, described above, will tend to move closer to the liability volatility ratio as the plan matures. Since the liability volatility ratio is a long-term measure, it is shown below at the current discount rate (7.25 percent) as well as the discount rate the Board has adopted to determine the contribution requirement in the June 30, 2018 actuarial valuation (7.00 percent).

<u>Rate Volatility</u>	<u>Miscellaneous Plan*</u>	<u>Safety Plan-Police*</u>	<u>Safety Plan-Fire*</u>
1. Market Value of Assets	\$5,789,869	\$4,157,093	\$703,578
2. Payroll	558,424	\$399,308	\$107,090
3. Asset Volatility Ratio (AVR) [(1) / (2)]	10.4	10.4	6.6
4. Accrued Liability	\$7,685,367	\$5,561,411	\$908,543
5. Liability Volatility Ratio (LVR) [(4) / (2)]	13.8	13.9	8.5
6. Accrued Liability (7.00% discount rate)	\$7,889,704	\$5,716,516	\$933,198
7. Projected Liability Volatility Ratio [(6) / (2)]	14.1	14.3	8.7

*As of June 30, 2017

Source: CalPERS Annual Valuation Report as of June 30, 2017.

OVERLAPPING DEBT OF THE CITY

Direct and Overlapping Bonded Debt

The following Table 18 sets forth the statement of the City’s direct and overlapping bonded indebtedness, as of ____ 1, 2019, and as prepared by California Municipal Statistics, Inc., Oakland, California (the “Debt Report”). The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by public agency are payable only from the general fund or other revenues of such public agency.

Table 18
CITY OF MOUNT SHASTA
SERIES 2019 REVENUE BONDS

DIRECT AND OVERLAPPING BONDED DEBT

Source: California Municipal Statistics Inc.

RISK FACTORS

The purchase of the Bonds involves investment risk. If a risk factor materialized to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors. There can be no assurance that other risk factors will not become material in the future.

Future Financial Condition

No representation is made as to the future financial condition of the City. Payment of the Base Rental Payments is a general fund obligation of the City and the ability of the City to make Base Rental Payments may be adversely affected by its financial condition as of any particular time. For example, CalPERS may make further actuarial adjustments, or general weakness in the economy of the State and the United States, could cause the general revenues of the City to decline. Such financial conditions may have a detrimental impact on the City's General Fund, and, accordingly, may reduce the City's ability to make Base Rental Payments. See the caption "CITY FINANCIAL INFORMATION" herein.

The City has a significant amount of obligations payable from its General Fund, including but not limited to debt obligations, pension obligations, lease obligations and other obligations related to post employment retirement benefits as well as certain other liabilities. The Lease Agreement and Indenture do not prohibit the City from incurring additional lease and other obligations payable from the City's General Fund. In that regard, the City from time to time incurs various General Fund obligations to finance public improvements, which may also include lease obligations payable from its General Fund. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. In the event that the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments and other payments due under the Lease Agreement.

In addition, City expenses could also rise as a result of unforeseen events, including but not limited to increases in pension obligations. Such a determination could require the City to make payments from the General Fund that were expected to be funded from other sources, or cause moneys received from other sources to be lower than budgeted.

Net Revenues; Rate Covenants Not a Guarantee

Net Revenues are dependent upon the demand for wastewater services, which can be affected by population factors, more stringent wastewater standards, wastewater regulations, or problems with the City's wastewater collection and treatment facilities. There can be no assurance that wastewater service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for wastewater services could require an increase in rates or charges on Enterprise customers in order to comply with the rate covenants. The City's ability to meet its rate covenants is dependent upon its capacity to increase rates to a level sufficient to meet its obligations to make the Installment Payments and payments on Parity Obligations.

The City's rate covenants under the Installment Sale Agreement do not constitute a guarantee that sufficient Net Revenues will be available to pay debt service on the Bonds. In addition, see "–California Constitution Articles XIII C and XIII D" below for information regarding potential limitations on the City's ability to comply with the rate

covenants as a consequence of Proposition 218 and Proposition 26.

There can be no assurance that the City can succeed in operating the Enterprise such that the Net Revenues in the future amounts projected in this Official Statement will be realized. Reductions in the level of revenue could require an increase in rates and charges in order to produce Net Revenues sufficient to comply with the City's rate covenants contained in the Installment Sale Agreement, and any such increases could act to further decrease demand.

Substitution or Release of Leased Facilities

The Authority and the City may amend the Lease Agreement: (a) to substitute alternate real property for any portion of the Leased Facilities; or (b) to release a portion of the Leased Facilities from the Lease, upon compliance with certain conditions set forth in the Lease Agreement. After a substitution or release, the portion of the Leased Facilities for which the substitution or release has been effected will be released from the subleasehold encumbrance of the Lease Agreement. Moreover, the Authority may issue Additional Bonds secured by Revenues which are increased from current levels. See the captions "THE LEASED FACILITIES – Substitution or Release of Leased Facilities" and "SECURITY FOR THE BONDS – Additional Bonds" herein

The Lease Agreement requires, among other things, that the annual fair rental value of the Leased Facilities after substitution or release will be at least equal to 100% of the maximum amount of the Base Rental Payments becoming due in the then current fiscal year or in any subsequent fiscal year, as constituted after such substitution or release. Thus, a portion of the Leased Facilities could be replaced with less valuable real property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release.

Base Rental Payments Are Not Debt

The obligation of the City to make the Base Rental Payments under the Lease Agreement does not constitute an obligation of the City 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. Neither the Bonds nor the obligation of the City to make Base Rental Payments constitute a debt of the City, the State of California or any political subdivision thereof (other than the Authority) within the meaning of any constitutional or statutory debt limitation or restriction.

The Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues and amounts held in the funds and accounts created under the Indenture, consisting primarily of Base Rental Payments and Installment Payments. The Authority has no taxing power.

The Bonds are being issued by the Authority pursuant to the Bond Law. The Supreme Court of the State in its 1998 decision of *Rider v. City of San Diego*, 18 Cal. 4th 1035, upheld the validity of a joint powers agency financing and found that bonds issued pursuant to the Bond Law and payable from lease payments made pursuant to a lease with the City of San Diego were not subject to the State constitutional provisions that require two-thirds voter approval of indebtedness incurred by a city, county or school district. No voter approval of the Bonds or the Lease Agreement has been sought.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Base Rental Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that, for so long as the Leased Facilities are available for its use, it will make the necessary annual appropriations within its budget for the Base Rental Payments.

Abatement

In the event of loss or substantial interference in the use and possession by the City of all or any portion of the Leased Facilities caused by material damage, title defect, destruction to or condemnation of the Leased Facilities, Base Rental Payments will be subject to abatement. In the event that such component of the Leased Facilities, if damaged or destroyed by an insured casualty, could not be replaced during the period of time that proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such component of the Leased Facilities or prepayment of the Bonds, there could be insufficient funds to make payments to Owners in full. Reduction in Base Rental Payments due to abatement as provided in the Lease Agreement does not constitute a default thereunder, and no remedy is available to the Bond Owners for nonpayment under such circumstances. See APPENDIX A – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Lease Agreement – Abatement of Rental" hereto.

Accuracy of Assumptions

To estimate projected financial results of the Wastewater Enterprise, including the Coverage Projections set forth in Table 9, and the corresponding projected Net Revenues available to pay debt service Installment Payments, the City has made certain financial forecasts and assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with Enterprise operations and the interest rate at which funds will be invested. The City believes these financial forecasts and assumptions to be reasonable, but variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those forecasted and such variations may be material, with a possible result being that Net Revenues may prove to be significantly less than projected in this Official Statement. Accordingly, such assumptions and projections are at best educated estimates, and are not in any way a guaranty of future performance, and the City assumes no responsibility for the accuracy of such financial forecasts and projections.

Increased Maintenance and Operation Costs

There can be no assurance that expenses of the City with respect to the Equipment and the Enterprises will be consistent with the levels contemplated in this Official Statement. Operation and Maintenance Costs could increase at higher rates than currently expected as a result of various factors, including increases in personnel costs, energy costs, chemical costs, pumping costs, technology, safety or regulatory costs, unforeseen costs associated with spills or other accidents involving the Equipment and/or the Enterprises, and other factors beyond the City's control. Increases in Operation and Maintenance Costs could require an increase in rates or charges in order to comply with the Rate Covenants in the Installment Sale Agreement. There can be no assurance that such future rate increases, if necessary, will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. See "RISK FACTORS – Net Revenues; Rate Covenants Not a Guarantee" herein.

Financial Controls

The City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City, including the Enterprise, are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed

the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. While the City believes that it has established an internal control structure designed to protect against such events, no assurance can be given as to the adequacy of thereof, or any insurance coverage related thereto. If there were to be an occurrence of a loss, theft, or misappropriation, there could be a substantial reduction in the City's ability to pay Lease Payments and/or Installment Payments, which could result in a lack of the ability to generate sufficient Revenues to repay the Bonds.

Pension Benefit Liability

Many factors influence the amount of the City's pension benefit liability, including, without limitation, inflationary factors, changes in statutory provisions of applicable law, changes in the levels of benefits provided or in the contribution rate of the City, increases or decreases in the number of covered employees, changes in actuarial assumptions or methods and differences between actual and anticipated investment experience of the CalPERS. Any of these factors could give rise to additional liability of the City to CalPERS as a result of which the City would be obligated to make additional payments to CalPERS over the amortization schedule for full funding of the City's obligations to CalPERS. The City expects its pension benefit liability to increase in future years as a result of the CalPERS Board-approved new investment return methodology. See also "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2017-18" hereto.

Insurance

The Lease Agreement and Installment Sale Agreement require the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of applicable portions of the Leased Facilities and the Enterprise in the event of damage or destruction thereto. 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 such applicable portions, which, in turn, could result in a lack of the ability to generate sufficient Revenues to repay the Bonds.

Further, the City is not legally obligated under either the Lease Agreement or the Installment Sale Agreement to maintain, or cause to be maintained, earthquake or flood insurance on the Leased Facilities or the Wastewater Enterprise, and the City does not presently maintain earthquake or flood insurance on behalf of the Leased Facilities or the Wastewater Enterprise. No assurance is made that any earthquake or flood insurance will be provided in the future, or if provided, that such insurance will continue to be maintained in the future. If there were to be an occurrence of a flood or severe seismic activity in the City, there could be substantial damage to the Leased Facilities and/or the Wastewater Enterprise, the cost of repair of which could exceed the net equity available therefore. In the event of significant flood or earthquake damage to the Leased Facilities and/or the Wastewater Enterprise, there can be no assurance that Revenues would be sufficient to pay principal of and interest on the Bonds.

California Constitution Articles XIIC and XIID

Proposition 218. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID 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, limited local governments' authority to impose or increase 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 city 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 XIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

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

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

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General’s opinion initially indicated that fees and charges for water and wastewater services, which are based on the amount of services consumed, would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID. However, numerous subsequent court cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218. These cases include, for example, *Capistrano Taxpayers Assoc., Inc. v. City of San Juan Capistrano* (186 Cal. Rptr. 3d 362 (Cal. App. 4th Distr. 2015)), *Bighorn-Desert View Water Agency v. Verjil* (46 Cal. Rptr. 3d 73 (Cal. 2006)), and *Howard Jarvis Taxpayers Assoc. v. City of Fresno* (26 Cal. Rptr. 3d 153 (Cal. App. 5th Distr. 2005)).

Proposition 26. On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIC of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except certain charges and fees specified therein. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

City’s Current Practice Regarding Rates and Charges. The City’s current wastewater rates (see “THE WASTEWATER ENTERPRISE – Wastewater Rates and Charges”) were adopted by ordinance of the City Council following notice to property owners and a public hearing held at least 45 days after the notice had been mailed, in compliance with the Bighorn decision.

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted. Under the Bighorn case, local voters could adopt an initiative measure that reduces or repeals the City’s rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be

enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for wastewater and water, or to call into question previously adopted wastewater and water rate increases.

Possible Future Initiatives

In recent years several measures other than Proposition 218 and Proposition 26 have been proposed or adopted which affect the ability of local governments to increase taxes, rates, and property-related fees and charges. There is no assurance that the electorate or the State Legislature will not at some future time approve additional limitations that could affect the ability of the City to implement rate increases for the Enterprises, which could reduce Net Revenues and the City's ability to pay debt service on the Bonds and Parity Obligations, and could adversely affect the security for the Bonds.

Limitations on Remedies and Bankruptcy

The ability of the City to increase wastewater services charges and to comply with its covenants under the Indenture and the Installment Sale Agreement and to generate Net Revenues sufficient to pay the Installment Payments in amounts sufficient to pay 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 payers of assessments, fees and charges. See “– Articles XIIC and XIID of the California Constitution” above. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture and 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 limitations on remedies contained in the Indenture and the Installment Sale Agreement, the rights and obligations under the Bonds, the Indenture, the Lease Agreement and the Installment Sale Agreement 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 municipalities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified.

The City is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the “Bankruptcy Code”). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have a priority of payment superior to that of Owners of Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt (a “Plan”) without the consent of the Trustee or all of the Owners of Bonds, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

In addition, the City could either reject the Lease Agreement and/or the Installment Sale Agreement or assume the Lease Agreement and/or the Installment Sale Agreement despite any provision of the Lease Agreement and/or the Installment Sale Agreement which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event the City rejects the Lease Agreement and/or the Installment Sale Agreement, the Trustee, on behalf of the Owners of the Bonds, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or Owners of the Bonds. Moreover, such rejection would terminate the Lease Agreement and/or the Installment Sale Agreement and the City's obligations to make payments thereunder.

In a bankruptcy of the City, if a material unpaid liability is owed to CalPERS or any other pension system (collectively the "Pension Systems") on the filing date, or accrues thereafter, such circumstances could create additional uncertainty as to the City's ability to make Base Rental Payments. Given that municipal pension systems in California are usually administered pursuant to state constitutional provisions and, as applicable, other state and/or city law, the Pension Systems may take the position, among other possible arguments, that their claims enjoy a higher priority than all other claims, that Pension Systems have the right to enforce payment by injunction or other proceedings outside of a City bankruptcy case, and that Pension System claims cannot be the subject of adjustment or other impairment under the Bankruptcy Code because that would purportedly constitute a violation of state statutory, constitutional and/or municipal law. It is uncertain how a bankruptcy judge in a City bankruptcy would rule on these matters. In addition, this area of law is presently very unsettled as issues of pension underfunding claim priority, pension contribution enforcement, and related bankruptcy plan treatment of such claims (among other pension-related matters) have been the subject of litigation in the Chapter 9 cases of several California municipalities, including the cities of Stockton and San Bernardino.

The Authority is a public agency and, like the City, is not subject to the involuntary procedures of the Bankruptcy Code. The Authority may also seek voluntary protection under Chapter 9 of the Bankruptcy Code. In the event the Authority were to become a debtor under the Bankruptcy Code, the Authority would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Such a bankruptcy could adversely affect the payments under the Indenture. Among the adverse effects might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have priority of payment superior to that of the Owners of the Bonds; and (iv) the possibility of the adoption of a Plan for the adjustment of the Authority's debt without the consent of the Trustee or all of the Owners of the Bonds, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable. However, the bankruptcy of the Authority, and not the City, should not affect the Trustee's rights under the Lease Agreement and/or the Installment Sale Agreement. The Authority could still challenge the assignment, and the Trustee and/or the Owners of the Bonds could be required to litigate these issues in order to protect their interests.

Hazardous Substances

The existence or discovery of hazardous materials may limit the beneficial use of the Leased Facilities. In general, the owners and lessees of the Leased Facilities may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response,

Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or lessee is obligated to remedy a hazardous substance condition of the property whether or not the owner or lessee had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the City be affected by a hazardous substance, could be to reduce the marketability and value of such property by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

Further it is possible that the beneficial use of the Leased Facilities may be limited in the future resulting from the current existence on the Leased Facilities of a substance currently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the current existence on the Leased Facilities of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method in which it is handled. All of these possibilities could significantly limit the beneficial use of the Leased Facilities. The City has not independently verified, but is unaware of the existence of hazardous substances on the Leased Facilities site which would materially interfere with the beneficial use thereof.

Physical Condition of Wastewater Enterprise Facilities

The reliability of the Wastewater Enterprise is affected by a number of factors including physical and operational vulnerabilities of its facilities. Certain of the Wastewater Enterprise facilities are near the end of their useful life. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on operations. The City budgets for the maintenance and operations of its facilities; however, the City gives no assurance that any future significant diminished physical status of its facilities would not materially adversely affect the operations of the Wastewater Enterprise. Partial or complete failure of components of the Wastewater Enterprise could cause a material increase in costs for repairs or a corresponding material adverse impact on Net Revenues.

Energy Costs

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Wastewater Enterprise. The volume of wastewater treated in the Wastewater Enterprise on a daily basis requires a significant amount of power.

Electricity is needed to run several assets including, among other things, pumps, lights, computers, mechanical valves and machinery. The City cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Wastewater Enterprise’s financial condition. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIC and XIID” herein.

Permits and Regulation

The wastewater operations of the City are subject to discharge permits from the RWQCB, as the enforcement agency for federal and State discharge requirements. The City’s WDRs for the Wastewater Enterprise are subject to future application to, and approval by, the RWQCB. In addition, such permits will be modified from time to time to provide for increased capacity or other changes in the City’s treatment and disposal strategies. The City is unable to predict at this time what additional conditions, if any, will be imposed under pertinent treatment or discharge requirements or whether such new conditions, if any, would impose additional operating constraints on the Wastewater Enterprise, or result in additional costs to the Wastewater Enterprise.

In the event that the federal government, acting through the USEPA, or the State, acting through the RWQCB or the Department of Health Services, or additional federal or State agencies, should impose stricter water quality standards upon the Wastewater Enterprise, the City's expenses could increase significantly and rates and charges would have to be increased accordingly to offset those expenses. It is not possible to predict the direction federal or State regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs. No assurance can be given that the cost of compliance with such laws and regulations will not adversely affect the ability of the City to generate Net Revenues in the amounts required by the Installment Sale Agreement to pay the Installment Payments.

Natural Disasters

From time to time, the City may be subject to natural calamities that may adversely affect economic activity in the City, which therefore may have a negative impact on City finances. Such additional factors include, without limitation, geologic, topographic or climatic disaster conditions such as wildfires, earthquakes, earth movements, landslides, floods, volcanic activity and droughts. The City is an area subject to potentially destructive earthquake, wildfire, flooding and volcanic activity. There can be no assurance that the occurrence of any of the following natural calamities would not cause substantial interference with City finances, including the Enterprises, which in turn could impair the ability of the City to make payments of principal of and interest on the Bonds when due.

Seismic: Historically, there have been only two recorded earthquakes with a Richter magnitude of 4.0 or greater occurring in the immediate area. The 1994 Fault Activity Map, prepared by the California Division of Mines and Geology (CDMG), indicates no active or potentially active faults within the City; however, two faults classified as "potentially active" by CDMG exist near the City placing it in an area of moderate seismic risk. Secondary hazards resulting from seismic activity include ground rupture along the fault, liquefaction of soils, settlement from sinking soils, and seismically induced landslides.

Flooding: Flood hazard in the planning area is very localized. The hazards are generally limited to riparian areas along streams, the shores of Lake Siskiyou and along the Sacramento River below Box Canyon Dam. The flooding of streams is caused by seasonal flow fluctuations and peak storm events. Flooding that occurs in the planning area generally only affects the immediate vicinity of particular streams. The Federal Emergency Management Agency has not mapped floodplains in the planning area, with the exception of the shore of Lake Siskiyou and a narrow fringe area along the Sacramento River.

Wildfire: According to the California Department of Forestry and Fire Protection (CAL FIRE), California experienced the deadliest and most destructive wildfires in its history in 2017 and 2018. Fueled by drought, an unprecedented buildup of dry vegetation and extreme winds, the size and intensity of these wildfires caused the loss of more than 100 lives, destroyed thousands of homes and exposed millions of urban and rural Californians to unhealthy air. Fire season in California and across the West is starting earlier and ending later each year. Warmer spring and summer temperatures, reduced snowpack, and earlier spring snowmelt create longer and more intense dry seasons that increase moisture stress on vegetation and make forests more susceptible to severe wildfire. CAL FIRE estimates that the length of fire season has increased by 75 days across the Sierras and seems to correspond with an increase in the extent of forest fires across the State.

According to the Safety Element of the City of Mount Shasta General Plan, the City is situated between areas that are highly susceptible to wildland fire hazards due to a combination of rugged topography, weather and highly flammable vegetation. The City is served by the Mount Shasta Fire Department and the Mount Shasta Fire Protection

District. The periphery of Mount Shasta is a wild land urban interface area where structures are at significant risk of fire exposure. Poor road conditions and inadequate water suppression infrastructure can limit the ability of fire crews from successfully fighting fires. Large wildfires have occurred in Siskiyou County or nearby areas during each of last five years, but none of such wildfires have reached City limit. In 2018 the City was under alert by the outbreak of a very large wildfire in the region that began on _____ (the “2018 Wildfire”). The 2018 Wildfire ultimately burned _____ acres in and around the City.

Volcanic and Geyser Activity: The City of Mt. Shasta lies on the southwestern flank of the Mount Shasta volcano, a large, historically active eruptive center in the southern Cascade Mountains. The Mount Shasta volcano has a long but irregular record of eruption. It has erupted at least once every 600-800 years for the past 10,000 years with its most recent eruption having occurred over two hundred years ago in 1786. There is a low probability of an eruption; however, if the volcano were to erupt the consequences would be severe. The USGS is unable to provide eruption predictions, as the region’s activity has been irregular in the past. A future eruption would likely be signaled by heightened earthquake activity. Ash-fall, toxic gases and wave hazards would be the three largest hazards for Mount Shasta residents in the event of a volcanic eruption. Although most volcanic hazards are triggered directly by an eruption, some hazards may occur when a volcano is quiet. Volcanic-related mudflows are a mixture of water and rock fragments that sometimes flow down the slopes of volcanoes and into downslope valleys and rivers. Eruptions may directly trigger mudflows by quickly melting snow and ice on the volcano. Mudflows can also be triggered by intense rainfall without being related to an eruption. Mudflows vary in size and speed. There are low-lying areas of the City that could potentially experience flows as the result of a volcanically triggered mudflow event.

Safety and Security

The safety of the facilities of the Enterprises is maintained by a combination of regular inspections by City employees, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by the City, are controlled access facilities with fencing and gates. Despite the security measures and precautions that are in place, military conflicts and terrorist activities could adversely impact operations of the Enterprises and the finances of the City.

The City continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the assets of the Enterprises or that costs of security measures will not be greater than presently anticipated. Furthermore, damage to City assets, including the Enterprises could require the City to increase expenditures for repairs significantly enough to adversely impact the City’s ability to pay Base Rental Payments and/or Installment Payments, which in turn could impair the ability of the City or Authority to make payments of principal of and interest on the Bonds when due.

Impact of State Budget

The City receives a portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City and other cities in the State. At various times, including recently, the State has experienced significant financial and budgetary stress. State budgets are affected by national and local economic conditions and other factors over which the City has no control. The State’s financial condition and budget policies affect communities and local public agencies throughout the State. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget.

For example, declining revenues and fiscal difficulties that arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, among others, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies.

Although starting with fiscal year 2013-14, recent State budgets have been balanced, largely attributable to improvements in the economy, the additional revenues generated due to the passage of Proposition 30 at the November 6, 2012, statewide election, as well as other spending cuts, there can be no certainty that budget-cutting strategies such as those used in prior years will not be used in the future, should the State budget again be stressed and if projections included in such budget do not materialize, or that Proposition 30 will be renewed.

Current and future State budgets will be affected by national and State economic conditions and other factors, including economic downturns, over which the City has no control. There can be no assurance that the State's efforts to balance future State budgets will not materially adversely affect the financial condition of the City. See "STATE BUDGET INFORMATION" herein.

Economic, Political, Social, and Environmental Conditions

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally.

Such conditional changes may include (but are not limited to): fluctuations in business production, consumer prices, financial markets, or unemployment rates; technological advancements; shortages or surpluses in natural resources or energy supplies; changes in law; social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism; environmental damage; and natural disasters.

Investment of Funds

All funds and accounts held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See APPENDIX A attached hereto for a summary of the definition of Permitted Investments. All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the City, including but not limited to the Project Funds, could have a material adverse effect on the security of the Bonds.

Secondary Market for Bonds

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 historical 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.

Loss of Tax Exemption

As discussed under the caption “TAX MATTERS,” interest on the Bonds could fail to be excluded pursuant to section 103(a) of the Internal Revenue Code of 1986, as amended (the “Code”) from the gross income of the owners thereof for purposes of federal income taxation, in some cases retroactive to the date of execution and delivery of the Bonds, as a result of future acts or omissions of the Authority or the City in violation of certain covenants contained in the Indenture, the Installment Sale Agreement or the Lease Agreement, respectively. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed pursuant to the Indenture.

In addition, Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Bonds are outstanding or that any such changes will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. If the exclusion of interest on the Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Bonds would be adversely impacted.

IRS Audit

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain of the covenants contained in the Lease Agreement, Installment Sale Agreement and Indenture is based upon assumptions and projections including, but not limited to, those described under “THE FINANCING PLAN.” Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the City assumes no responsibility for the accuracy of such projections.

CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES

Article XIII A and Article XIII B

Pursuant to California law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged is a “special tax,” which under Article XIII A of the California Constitution must be authorized by a two-thirds vote of the electorate. This requirement may be applicable to rates for sewer service and capacity charges, to the extent that such rates and charges exceed the reasonable costs of providing service. In addition, the California courts have determined that fees imposed as a condition of approval of a development project, such as impact fees for sewer service, will not be special taxes if the fees approximate the reasonable cost of constructing the related improvements contemplated by the local agency imposing the fee. Such court determinations have been codified in California Government Code Section 66005.

On November 6, 1979, California voters approved Proposition 4, the “Gann Initiative,” which added Article XIII B to the California Constitution. Under Article XIII B, state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions, and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any tax 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 voters and payments required to comply with court or federal mandates which without discretion required an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The City believes that its rates and charges for sewer service do not exceed the costs the City reasonably bears in providing such service, and are presently in compliance with Article XIII A and Article XIII B.

Proposition 218: Article XIII C and Article XIII D

General. On November 5, 1996, California voters approved Proposition 218, “the Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution, providing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments, and property-related fees and charges. The City believes that it has complied with the requirements of Proposition 218 in all material respects with respect to the adoption of the City’s current charges for Wastewater Enterprise services.

Article XIII C. Article XIII C provides that a local government may not impose, extend, or increase local taxes until such taxes are submitted to the electorate for approval. General taxes, imposed, extended, or increased for general governmental purposes of the city, require a majority vote and special taxes, imposed, extended, or increased for specific purposes, require a two-thirds vote. In addition, Article XIII C provides that the constitutional initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local taxes, assessments, fees, and charges. This provision with respect to the initiative power is not limited to taxes, assessments, fees, and charges imposed on or

after November 6, 1996, the effective date of Proposition 218. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states: “Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996 general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protection by Section 10 of Article I of the United States Constitution.” Government Code Section 5854 appears to limit the voters’ power to repeal or reduce Wastewater Enterprise fees and charges if such reduction would interfere with the City’s payment of Installment Payments. If Government Code Section 5854 becomes the subject of a challenge, however, no guarantee can be made that the courts will agree with such interpretation.

Article XIID. Article XIID imposes various procedural and substantive requirements on local governments that levy an “assessment,” “fee,” or “charge.” Article XIID defines “fees” or “charges” as “any levy other than an ad valorem tax, a special tax, or an assessment imposed by a city upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” “Property related service” means a public service having a direct relationship to property ownership (property ownership includes tenancies where tenants are directly liable to pay the fee or charge). In particular, a fee or charge: (i) may not exceed the funds required to provide the property related service, (ii) may not be used for any purpose other than that for which the fee or charge was imposed, (iii) may not exceed the proportional cost of the service attributable to the parcel, (iv) may not be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and (v) may not be imposed for general governmental services.

In addition, before any property related fee or charge may be imposed or increased, the local government agency must provide mailed notice 45 days in advance of a hearing regarding the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the local government agency may not impose or increase the fee or charge. Moreover, except for fees or charges for water, wastewater, and refuse collection services (or fees for electrical and gas service, which are expressly exempted from Proposition 218), no property related fee or charge may be imposed or increased without a majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds approval by those residing in the affected area and voting in the election. Article XIID states that, beginning July 1, 1997, all fees or charges must comply with its provisions.

The City believes that it has complied with the procedural and substantive requirements of Proposition 218 with respect to services charges of the Wastewater Enterprise that it currently imposes. The ability of the City to comply with the covenants in the Installment Sale Agreement, including the rate covenants described under “SECURITY RELATING TO THE INSTALLMENT SALE AGREEMENT – Rate Covenants,” in connection with the levy and collection of service charges of the Wastewater Enterprise could be adversely affected by actions taken or not taken by voters, property owners or other persons obligated to pay service charges.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D of the California Constitution were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted, further affecting the Wastewater Enterprise revenues or the City’s ability to expend such revenues.

STATE BUDGET INFORMATION

Information regarding the State Budget is regularly available at various State-maintained websites. The Fiscal Year 2018-19 State Budget and the 2019-20 Proposed State Budget further described below may each be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” Additionally, an impartial analysis of the State’s Budgets is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the Authority or the City, and none of the Authority, the City or the Underwriter take responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2018-19 State Budget

On June 27, 2018, Governor Jerry Brown signed into law the State budget for Fiscal Year 2018-19 (the “2018-19 Budget”). The state’s budget has achieved structural balance for the last several Fiscal Years, and the 2018-19 Budget predicts a budget surplus.

Although the 2018-19 Budget reflects a balanced budget, the Department of Finance’s summary of the 2018-19 Budget cautions that, since 2000, the State’s short periods of balanced budgets have been followed by massive budget shortfalls. To protect against potential future economic recessions, the 2018-19 Budget fully funds the Budget Stabilization Account, also called the state’s “rainy day fund,” with a total deposit of over \$4.4 billion and adds two additional reserves to State law: the Budget Deficit Savings Account, intended to facilitate supplemental payments to continue to fully fund the rainy day fund; and the Safety Net Reserve Fund, intended to protect against potential future cuts to certain health and welfare programs.

For Fiscal Year 2017-18, the 2018-19 Budget projects total general fund revenues and transfers of \$129.8 billion and total expenditures of \$127.0 billion. The State is projected to end the 2017-18 Fiscal Year with total available general fund reserves of \$16.7 billion, including \$7.3 billion in the traditional general fund reserve and \$9.4 billion in the rainy-day fund. For Fiscal Year 2018-19, the 2018-19 Budget projects total general fund revenues of \$133.3 billion and authorizes expenditures of \$138.7 billion. The State is projected to end the 2018-19 Fiscal Year with total available general fund reserves of \$15.9 billion, including \$2.0 billion in the traditional general fund reserve, \$13.8 billion in the rainy-day fund and \$200 million in the Safety Net Reserve Fund. The projected ending balance in the rainy-day fund at the end of the 2018-19 Fiscal Year is expected to equal 10 percent of the estimated general fund revenues for Fiscal Year 2018-19.

2019-20 Proposed State Budget

On January 10, 2019, Governor Gavin Newsom proposed the State budget for Fiscal Year 2019-20 (the “2019-20 Proposed State Budget”). The 2019-20 Proposed State Budget assumes moderate growth in revenues of approximately \$5.24 billion. The projected general fund revenues and transfers available in Fiscal Year 2019-20 totaled approximately \$147.9 billion and total expenditures in such Fiscal Year totaled approximately \$144.2 billion. As a part of the expenditures for Fiscal Year 2019-20, the 2019-20 Proposed State Budget allocates approximately \$20.6 billion in discretionary spending, with approximately \$9.7 billion to pay down State liabilities, \$5.1 billion to one-time or temporary program spending and \$3 billion to discretionary reserves. The 2019-20 Proposed State Budget also estimates \$18.5 billion in reserves by the end of Fiscal Year 2019-20 which includes a balance of \$15.3 billion for the State’s budget stabilization account, \$2.3 billion for the State’s Constitutional rainy day fund and \$900 million for the State’s safety net reserve which may be utilized for CalWORKS and Medi-Cal in the event of a recession.

The City does not provide assurances regarding the 2019-20 Proposed State Budget nor can it predict the impact that the 2019-20 Proposed State Budget, or subsequent budgets, will have on its finances and operations. See also “RISK FACTORS – Impact of State Budget” herein.

Information about the State budget and State spending is available at various State maintained websites. Text of the 2018-19 Budget, the 2019-20 Proposed State Budget, Budget Summaries and other documents related to the State budget may be found at the website of the State Department of Finance, www.dof.ca.gov. A nonpartisan analysis of the budget is posted by the Legislative Analyst’s Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets may be found at the website of the State Treasurer, www.treasurer.ca.gov.

May Revision to the 2019-20 Proposed State Budget. The Governor released the May Revision to the proposed fiscal year 2019-20 State budget (the “2019-20 May Revision”) on May 9, 2019. The 2019-20 May Revision proposes a balanced budget for fiscal year 2019-20. The 2019-20 May Revision projects an increase of \$3.2 billion in short-term general fund revenues as compared to the Proposed 2019-20 State Budget. However, most of the increased revenues are constitutionally obligated to reserves, debt repayments and schools. Therefore, the budget surplus remains relatively unchanged. The 2019-20 May Revision estimates that total resources available in fiscal year 2018-19 will be approximately \$149.5 billion (including revenues and transfers of approximately \$138.1 billion and a prior year balance of \$11.4 billion) and total expenditures in fiscal year 2018-19 will be approximately \$143.2 billion. The 2019-20 May Revision projects total resources available for fiscal year 2019-20 of approximately \$150.1 billion, inclusive of revenues and transfers of approximately \$143.8 billion and a prior year balance of approximately \$6.2 billion. The 2019-20 May Revision projects total expenditures of approximately \$147.0 billion, inclusive of non-Proposition 98 expenditures of \$91.1 billion and Proposition 98 expenditures of \$55.9 billion. The 2019-20 May Revision proposes to allocate approximately \$1.4 billion of the State general fund’s projected fund balance to the Reserve for Liquidation of Encumbrances and approximately \$1.7 billion of such fund balance to the State’s special fund for economic uncertainties. In addition, the 2019-20 May Revision estimates that the State’s Proposition 2 rainy day fund (the “Rainy Day Fund”) will have a fund balance of approximately \$16.5 billion.

The 2019-20 May Revision assumes slow economic expansion and a balanced budget through fiscal year 2019-20, although its forecasts are limited by growing uncertainty related to the global political and economic climate, federal policies, rising costs and the duration of the current economic expansion. The 2019-20 May Revision projects that the Rainy Day Fund will reach its maximum of 10% of general fund revenues in fiscal year 2020-21. By the end of fiscal year 2022-23, the 2019-20 May Revision projects that the Rainy Day Fund balance will have a balance of \$18.7 billion.

The complete 2019-20 May Revision is available from the California Department of Finance website at www.dof.ca.gov. The City takes no responsibility for the continued accuracy of this internet address or the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

On June 27, 2019, the Governor signed the final 2019-20 State Budget.

TAX MATTERS

In the opinion of The Weist Law Firm, Los Gatos, California, Bond Counsel, subject, however to the qualifications set forth below, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described more fully herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, the Bonds are “qualified tax-exempt obligations” within the meaning of section 265(b)(3) of the Code, and the interest on the Bonds is exempt from State of California personal income tax.

The opinions set forth in the preceding paragraph are based upon certain representations of fact and certifications made by the City and Authority, and is subject to the condition that the City and Authority comply with all requirements of Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City and Authority have each covenanted to comply with all such requirements.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner’s basis in the applicable Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the 2019 A Bond Owner is excluded from gross income of such Bond Owner for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Bond Owner is exempt from State of California personal income tax.

The amount by which a Bond Owner’s original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Bond Owner’s basis in the applicable Bond (and the amount of tax-exempt interest received with respect to the Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the “IRS”) has a program for the auditing of Bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds constituting interest or the market values of the Bonds.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the Bonds.

Bond Counsel's opinion with respect to the Bonds, respectively, may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any Bond constituting interest if any such action is taken or omitted based upon the advice of counsel other than The Weist Law Firm, Los Gatos, California.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided that the City and Authority continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

CERTAIN LEGAL MATTERS

The Weist Law Firm, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. Certain legal matters will also be passed upon for the City by The Weist Law Firm, as Disclosure Counsel. Certain matters will be passed upon for the City by the City Attorney, for the Authority by its general counsel and for the Trustee by its counsel.

CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Certificate for the benefit of Hilltop Securities Inc. as underwriter of the Bonds (the "Underwriter") and the Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City and the Enterprises by no later than nine months (March 31) following the end of the City's Fiscal Year (presently, the City's Fiscal Year ends on June 30) (the "Annual Report"), commencing with the report of Fiscal Year ending June 30, 2019, and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

The Annual Report and notices of material events will be filed by or on behalf of the City with the Municipal Securities Rulemaking Board (the "MSRB") in an electronic format prescribed by MSRB (currently Electronic Municipal Market Access system). Notices of enumerated events will be filed by or on behalf of the City with the

MSRB. The nature of the information to be provided in the Annual Report and the notices of certain enumerated events is described in “APPENDIX C –FORM OF CONTINUING DISCLOSURE CERTIFICATE” hereto.

The City and its related governmental entities have not previously entered into several disclosure undertakings under the Rule in connection with the issuance of long-term obligations.

LITIGATION

To the best knowledge of the Authority and the City, respectively, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against either the City or the Authority to restrain or enjoin the authorization, execution, sale or delivery of the Bonds, the pledge of the Revenues or the collection of the payments to be made pursuant to the Indenture, the obligation of the City to pay Base Rental Payments pursuant to the Lease Agreement or to pay Installment Payments from the Net Revenues made pursuant to the Installment Sale Agreement, or in any way contesting or affecting validity or enforceability of the Bonds, the Indenture, the Lease Agreement, the Installment Sale Agreements, or the agreement for the sale of the Bonds.

The City is engaged in routine litigation incidental to the conduct of its business. However, there is no litigation pending or threatened against either the Authority or the City which, in the opinion of the City Attorney, would materially adversely affect the Enterprises or the financial condition of the City, or the sources of payment for the Bonds. The City may be or may become a party to lawsuits and claims in the future which are unrelated to the Bonds or actions taken with respect to the Bonds and which have arisen in the normal course of operating the City. The City maintains certain insurance policies which provide coverage under certain circumstances and with respect to certain types of incidents. The City cannot predict what types of claims may arise in the future.

RATINGS

S&P Global Ratings, a Standard & Poor’s Financial Services LLC business (“S&P”), is expected to assign the Bonds a rating of “__” based upon the issuance of the Policy by _____ at the time of delivery of the Bonds. Such ratings reflect only the view of S&P and any desired explanation of the significance of such ratings should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. The Authority, the City and the Underwriter have undertaken no responsibility either to bring to the attention of the Owners of the Bonds any proposed change in or withdrawal of the rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the rating might have an adverse effect on the market price or marketability of the Bonds.

FINANCIAL STATEMENTS

The City’s financial statements for the Fiscal Year ended June 30, 2018 were prepared by the City and audited by Aiello, Goodrich & Teuscher, an Accountancy Corporation, Mount Shasta, California, and excerpts from such report are contained in APPENDIX B hereto. The financial statements should be read in its entirety. At the time of the execution and delivery of the Bonds, the City will certify that there has been no material adverse change in the City’s financial position since June 30, 2018.

APPENDIX A

SUMMARY OF LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Lease Agreement and the Installment Sale Agreement. This summary is not intended to be definitive and is qualified in its entirety by reference to such documents for the complete terms thereof.

APPENDIX B
AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR FISCAL YEAR 2017-18

APPENDIX C

FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated as of October 1, 2019, is executed and delivered by the City of Mount Shasta (the “City”), as dissemination agent (the “Disclosure Dissemination Agent”), for the benefit of the Beneficial Owner (hereinafter defined) of the \$ _____ aggregate principal amount of the above-captioned Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project) (the “Bonds”) in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The City and the Disclosure Dissemination Agent covenant and agree as follows:

SECTION 1. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Financial Information*” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Certificate.

“*Annual Report*” means an Annual Report described in and consistent with Section 3 of this Disclosure Certificate.

“*Annual Filing Date*” means the date, set forth in Section 2(a) and Section 2(f), by which the Annual Report is to be filed with the MSRB.

“*Audited Financial Statements*” means the financial statements (if any) of the City for the prior Fiscal Year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Certificate.

“*Authority*” means the Mount Shasta Public Financing Authority, a joint powers authority and public body duly organized and existing under the laws of the State of California.

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

“*Bonds*” means the \$ _____ aggregate principal amount of Mount Shasta Public Financing Authority, Series 2019 Revenue Bonds (City and WW Treatment Plant Solar Project), Bank Qualified, issued pursuant to the Indenture.

“*Certification*” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, required to be submitted to the MSRB under this Disclosure Certificate. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the City and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“*City*” means the City of Mount Shasta, California.

“*Disclosure Representative*” means the Finance Director of the City or his or her designee, or such other person as the City shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“*Disclosure Dissemination Agent*” means NHA Advisors LLC, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the City.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository system located at www.emma.msrb.org for documents filed with the MSRB pursuant to the Rule, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Failure to File Event*” means the City’s failure to file an Annual Report on or before the Annual Filing Date.

“*Financial Obligation*” means a debt obligation; derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or a guarantee of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation. The term financial obligation excludes municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule.

“*Force Majeure Event*” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Certificate.

“*Indenture*” means the Indenture of Trust, dated as of October 1, 2019 (the “*Indenture*”), by and between the City and U.S. Bank National Association, as trustee thereunder.

“*Information*” means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, and the Failure to File Event notices.

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

“*MSRB*” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Marketplace Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Notice Event*” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Certificate.

“*Obligated Person*” means any person, including the City, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). With respect to the Bonds, only the City constitutes the Obligated Person.

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

“*Participating Underwriter*” means Hilltop Securities Inc., the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

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

“*State*” means the State of California.

“*Trustee*” means U.S. Bank National Association, as trustee under the Indenture, or any successor Trustee designated in writing by the City.

SECTION 2. Provision of Annual Reports and Other Disclosures.

(a) The City shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent by no later than nine months (March 31) following the end of the City’s Fiscal Year (presently, the City’s Fiscal Year ends on June 30), commencing with the Annual Report for the Fiscal Year ended June 30, 2019. Such date and each anniversary thereafter is the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide such Annual Report to the MSRB. 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 3 of this Disclosure Certificate.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination

Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the City of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the City will not be able to file the Annual Report within the time required under this Disclosure Certificate, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the City irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit A without reference to the anticipated filing date for the Annual Report.

(d) If Audited Financial Statements of the City are prepared but not available prior to the Annual Filing Date, the City shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the City pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Certificate; and

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Certificate, as applicable), promptly file a completed copy of Exhibit A to this Disclosure Certificate with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Certificate;

(f) The City may adjust the Annual Filing Date upon change of its Fiscal Year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall

not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Certificate and that is accompanied by a Certification and all other information required by the terms of this Disclosure Certificate will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

(a) To the extent not included in the Audited Financial Statements provided pursuant to Section 3(b) below, each Annual Report shall contain Annual Financial Information consisting of updated information comparable to the following information appearing in Official Statement:

1. An update of the information contained in Table Nos. __, __, __ and __ of the Official Statement.
2. The outstanding principal amount of the Bonds and any Parity Obligations as of June 30 of the most recently completed Fiscal Year.
3. A description of any Parity Obligations issued during the most recently completed Fiscal Year.
4. A list of the City's Top 10 Principal Property Taxpayers, including the current Fiscal Year assessed valuation and percent of total assessed valuation.
5. A description of any changes in Wastewater Enterprise rates and charges adopted by the City Council during the most recently completed Fiscal Year.

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles ("GAAP") as described in the Official Statement will also be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the City is an Obligated Person, which have been previously filed with the Securities and Exchange Commission or available to the public on the MSRB Internet website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the

type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of Bond holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person *(Note to subsection (a)(12) of this Section 4: For the purposes of the event described in this subsection (a)(12) of Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person);*
13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive

agreement relating to any such actions, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;

15. Incurrence of a Financial Obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligated Person, any of which affect security holders, if material; and

16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

The City shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the City or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event in a timely manner not later than the tenth business day after the occurrence of the Notice Event, if the City determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the City as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, and Failure to File Event notices, the City shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided

information relates.

SECTION 6. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that the failure of the Disclosure Dissemination Agent to so advise the City shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Certificate. The City acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Certificate.

SECTION 7. Voluntary Filings. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Certificate or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, in addition to that required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice 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, Audited Financial Statements, Notice Event notice, or Failure to File Event notice.

SECTION 8. Termination of Reporting Obligation. The obligations of the City and the Disclosure Dissemination Agent under this Disclosure Certificate shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the City is no longer an Obligated Person with respect to such Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required with respect to such Bonds.

SECTION 9. Disclosure Dissemination Agent. The City may, upon thirty days written notice to the Disclosure Dissemination Agent, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of the Disclosure Dissemination Agent, whether by notice of the City or the Disclosure Dissemination Agent, the City agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Certificate for the benefit of the Beneficial Owners of the Bonds. Notwithstanding any replacement or appointment of a successor, the City shall remain liable, until payment in full, for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the City.

SECTION 10. Remedies in Event of Default. In the event of a failure of the City or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Certificate, the Beneficial Owners' rights to enforce the provisions of this Disclosure Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Certificate. Any failure by a party to perform in accordance with this Disclosure Certificate shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) Article VII of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Disclosure Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the City agrees to indemnify and save the Disclosure Dissemination Agent, the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Disclosure Dissemination Agent's negligence or willful misconduct. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the City has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Certificate. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Beneficial Owners of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the City's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the City has complied with this Disclosure Certificate. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

The obligations of the City under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the City.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Certificate shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City and the Disclosure Dissemination Agent may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the City and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Beneficial Owners of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the City nor the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Certificate necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days prior written notice of the intent to do so together with a copy of the proposed amendment to the City. No such amendment shall become effective until counsel to the City of nationally recognized standing in the field of law relating to municipal bonds determines in writing that such amendments are necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission, or if the City shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee of the Bonds, the Disclosure Dissemination Agent, the participating underwriters (as defined in the Rule), and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

* * * * *

The Disclosure Dissemination Agent and the City have caused this Disclosure Certificate to be executed, on the date first written above, by their respective officers duly authorized.

CITY OF MOUNT SHASTA, CALIFORNIA
As Obligated Person

By: _____
Authorized Signatory

CITY OF MOUNT SHASTA, CALIFORNIA,
As Disclosure Dissemination Agent

By: _____
Finance Director

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Mount Shasta Public Financing Authority
Obligated Person: City of Mount Shasta
Name of Issue: \$ _____
Mount Shasta Public Financing Authority
Series 2019 Revenue Bonds
(City and WW Treatment Plant Solar Project)
Bank Qualified
Date of Issuance: October __, 2019

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate between the City and the Disclosure Dissemination Agent named therein. The City has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____.

Dated: _____

_____,
as Disclosure Dissemination Agent
on behalf of the City

APPENDIX D

GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA

The following information, unless otherwise cited, was directly transcribed from material provided by the City of Mount Shasta (the “City”), the County of Siskiyou (the “County”), and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the City, the County and surrounding area. The information set forth in this Appendix “D” has not been researched for accuracy or veracity, and therefore it must not be relied upon when making an investment decision. The Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. See “SECURITY FOR THE BONDS” in the forepart of this Official Statement.

City and County in General

City of Mount Shasta. The City of Mount Shasta (the “City”) is located along Interstate 5 in the heart of Siskiyou County, California (the “County”). The City is located about 75 miles north of Redding, about 290 miles north of Sacramento, and about 85 miles south of Medford, Oregon. It is one of four incorporated cities in Siskiyou County and is a principal center for government, commerce, agricultural interest, and recreation in the County. The City encompasses approximately 3.8 square miles. It was incorporated in 1905 and operates as a general law city under the council-manager form of government. The City has a resident population of approximately 3,283, with the County having a resident population of just over 44,584.

The City Council of the City is comprised of five elected council members served by a full-time City Manager and staff. Council members are elected at large for staggered four-year terms. At the regular meeting in November of each year the City Council chooses one of its members to serve as Mayor and one of its members to serve as Mayor Pro Tempore, each to serve until successors are chosen at the regular meeting in the following November. The City Manager is appointed by the City Council solely on the basis of executive and administrative qualifications. The City Manager holds office for an indefinite term at the pleasure of the City Council. The City Manager is the chief executive of the City government under the direction and control of the Council, and has authority over all other officers and employees except the City Clerk, City Treasurer and City Attorney.

The City’s most prominent geographical feature is Mount Shasta, a potentially active volcano at the southern end of the Cascade Range in Siskiyou County, California. At an elevation of 14,179 feet, it is the second-highest peak in the Cascades and the fifth highest in the State. USGS and UNAVCO seismic and geodetic networks provide real-time volcano monitoring data, and over the last few decades earthquake activity has been low and ground deformation is negligible. Mount Shasta was designated a National Landmark in December of 1976. Mount Shasta has been utilized in many ways over the decades to stimulate the local economy, drawing tourism dollars into the City and County by providing snow skiing and snowboarding opportunities, backpacking, mountain biking and leisure activities.

Siskiyou County. Siskiyou County is adjacent to Oregon in the northern region of California. Surrounding counties include Del Norte, Humboldt and Trinity to the west and southwest, Shasta to the south and Modoc to the east. As one of the largest counties in the state, more than sixty percent of Siskiyou County’s land is managed by federal and state government agencies. These include the USDA Forest Service, the Bureau of Land Management, the U.S. Fish and Wildlife Service and the California Department of Fish and Game. Siskiyou County has expansive peaks, wildlife, agricultural settings and lush rivers. Next to the Appalachian region, Siskiyou County is one of the most ecologically diverse regions in the world. It houses the “meeting” of several western mountain ranges and the transitional mixing of various habitat types. Geographically, it has considerable vertical variance in elevation and hydrological and soil conditions. Portions of the County are heavily influenced by volcanic forces and portions that were unaffected by ancient glacial flooding.

Topography and Climate

The City and County offers a great variety of elevations and terrain. The City is located along the western edge of Mount Shasta at an elevation of 3,600 feet above sea level; however, Mount Shasta rises to an elevation of approximately 14,179 feet above sea level.

The city gets nearly 103 inches of snowfall despite its low 3,600 feet elevation due to its location at the base of Mount Shasta. The average January temperatures are a maximum average of 43.0 °F and a minimum average of 25.8 °F. The average July temperatures are a maximum average of 87.9 °F and a minimum average of 50.4 °F. Its climate can be classified as humid subtropical with dry summers, or warm-summer Mediterranean climate according to the Köppen climate classification system.

Population

The following sets forth the City, the County and the State population estimates as of January 1 for the years 2012 to 2019:

**CITY OF MOUNT SHASTA, SISKIYOU COUNTY AND STATE OF CALIFORNIA
Estimated Population**

<u>Year (January 1)</u>	<u>City of Mount Shasta</u>	<u>Siskiyou County</u>	<u>State of California</u>
2012	3,348	44,841	37,874,977
2013	3,350	44,825	38,234,391
2014	3,364	44,809	38,568,628
2015	3,433	44,731	38,912,464
2016	3,459	44,718	39,179,627
2017	3,423	44,615	39,500,973
2018	3,287	44,605	39,740,508
2019	3,283	44,584	39,927,315

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

Employment

According to the State of California Employment Development Department, the average annual calendar year 2017 estimated unemployment rates for the City, the County and the State were 2.6 percent, 7.2 percent and 4.8 percent, respectively. The following table shows certain employment statistics for the City, County and State for calendar years (annual averages) 2013 through 2017.

**CITY OF MOUNT SHASTA
City and County Employment Statistics
Calendar Years 2013 through 2017⁽¹⁾
(Annual Averages)**

Year	City		Unemployment Rate	County	State
	Labor Force	Employed		Unemployment Rate	Unemployment Rate
2013	1,790	1,570	12.5%	13.1%	8.9%
2014	1,770	1,580	10.5%	11.1%	7.5%
2015	1,760	1,600	5.2%	9.3%	6.2%
2016	1,760	1,620	8.0%	8.5%	5.4%
2017	1,860	1,810	2.6%	7.2%	4.8%

(1) Not seasonally adjusted. March 2017 benchmark.

Source: State of California, Employment Development Department.

Major Employers

The following table provides a list of the top ten employers in the County, ranked by number of employees.

**COUNTY OF SISKIYOU
Top Ten Employers
May 2018**

<u>Employer Name</u>	<u>Number of Employees</u>
----------------------	----------------------------

Source: The City.

The County's top twenty-five employers are set forth below, listed in alphabetical order.

**COUNTY OF SISKIYOU
Top Twenty-Five Employers
May 2018**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
----------------------	-----------------	-----------------

Source: Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2018 1st Edition.

Commercial Activity

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions within the County is presented in the following table. Total taxable sales during the calendar year 2016 in the County were reported to be \$ _____, compared to total taxable sales reported during the calendar year 2015 of \$ _____. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2017 or beyond.

COUNTY OF SISKIYOU
Taxable Retail Sales
Valuation of Taxable Transactions
(dollars in thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Retail and Food Services					
Motor Vehicle and Parts Dealers					
Home Furnishings and Appliance Stores					
Bldg. Mat'l. & Garden Equip. & Supplies					
Food and Beverage Stores					
Gasoline Stations					
Clothing and Clothing Accessories Stores					
General Merchandise Stores					
Food Services and Drinking Places					
Other Retail Group	_____	_____	_____	_____	_____
Total Retail and Food Services					
All Other Outlets	_____	_____	_____	_____	_____
Total All Outlets					
Permits – All Outlets					

⁽¹⁾ Detail may not compute to total due to rounding.
Source: "Taxable Sales in California," California State Board of Equalization.

Total taxable sales during the calendar year 2016 in the City were reported to be \$ _____ which represents a slight decline over the total taxable sales of \$ _____ reported during the calendar year 2015. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2017 or beyond.

CITY OF MOUNT SHASTA
Taxable Transactions
(dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011				
2012				
2013				
2014				
2015				
2016				

⁽¹⁾ Detail may not compute to total due to rounding.
Source: "Taxable Sales in California," California State Board of Equalization.

Fire Protection and Law Enforcement

Fire Protection. Fire protection services and emergency response in the planning area are provided within the City limits by the Mt. Shasta Fire Department and outside the City by the Mt. Shasta Fire Protection District. The City Fire Department and the Fire Protection District have a mutual aid agreement, and the department is a partner with all other fire protection agencies in Siskiyou County in a countywide mutual aid agreement. Both the Fire Department and the District work cooperatively with the U.S. Forest Service and the California Department of Forestry and Fire Protection to reduce fire threats to the community from adjacent forest and wild-land areas.

Mt. Shasta Fire Department operates on a combination of paid and volunteer status. The Chief receives a salary and the assistant chief, deputy chief and secretary receive partial compensation. Volunteer firefighters receive minimal fire pay.

The Department maintains two facilities within the City: the main station adjacent to City Hall near the intersection of Lake Street and Mt. Shasta Boulevard, and an equipment garage located west of the railroad tracks off of Pine Street. The Fire Protection District has two station locations outside the City limits, one on North Old Stage Road and one on Ream Avenue.

Police Protection. Police protection services and emergency response within the City of Mt. Shasta are provided by the Mt. Shasta Police Department. The Siskiyou County Sheriff's Department provides services to the unincorporated area surrounding the City. The Police Department is located at Lake Street and Mt. Shasta Boulevard. The County Sheriff's Department has a substation located on Ski Village Drive adjacent to and north of the City of Mt. Shasta. This station serves the entire south County area including the vicinities of Mt. Shasta, McCloud, Dunsmuir, Weed, and surrounding areas.

Schools and Libraries

Public education in the City for kindergarten through eighth grade is provided primarily by the Mt. Shasta Elementary School District. High School education is provided by the Siskiyou Union High School

District.

Mt. Shasta Elementary School District: The Mt. Shasta Elementary School District has five schools: Mt. Shasta Elementary, Sisson Elementary School, Challenge Home Charter, Headwaters Day School and Mt. Shasta Options for Youth. The 2003-2004 student enrollment for the District was 903 students.

Siskiyou Union High School District: The Siskiyou Union High School District operates three high schools within the City: Mt. Shasta High School, Jefferson High School and South County Community Day School. Annual enrollment is about 475 students. Mt. Shasta High School has over 80 acres of undeveloped land at the school site

Mt. Shasta Library: The Mt. Shasta Library is located adjacent to Sisson Elementary School. The library is a branch of the Siskiyou County Library, which is an affiliate of the North State Library Cooperative System. The North State Library Cooperative System facilitates an extensive inter-library loan program between independent city and county libraries in cooperation with academic library affiliates to provide services to the 13 Northern California counties.

Parks and Recreation

Generally, the Mt. Shasta area has an abundance of public open space and recreational lands. National Forests, State Parks and local recreation areas provide a variety of regional and local recreational opportunities. The City does not maintain a parks department. Public recreation facilities and programs are managed primarily by the Mt. Shasta Recreation and Parks District.

Medical Facilities

Mercy Medical Center is located in the City and is the general hospital serving southern Siskiyou County. Mercy Medical Center Mt. Shasta is sponsored by Catholic Healthcare West, a network of not-for-profit hospitals and health service companies providing care in California, Arizona and Nevada. Fully accredited by the Joint Commission of Healthcare organizations, Mercy Medical Center is licensed for 33 acute care beds and 47 skilled nursing beds. The hospital employs approximately 375 people, and offers a broad range of services including: general surgery; orthopedic surgery; ear, nose, and throat surgery; urology; radiology; family practice and internal medicine. The emergency room has a doctor on duty 24 hours a day and has been designated a Level III Trauma Center. The hospital has access to an air ambulance for transfer to its sister facility in Redding.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, The Weist Law Firm, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

October __, 2019

Board of Directors
Mount Shasta Public Financing Authority
Mount Shasta CA, 96067

OPINION: \$ _____
Mount Shasta Public Financing Authority
Series 2019 Revenue Bonds
(City and WW Treatment Plant Solar Project)
Bank Qualified

Ladies and Gentlemen:

We have acted as Bond Counsel to the Mount Shasta Public Financing Authority (the “Authority”) in connection with the issuance by the Authority of its \$ _____ aggregate principal amount of Series 2019 Revenue Bonds, (City and WW Treatment Plant Solar Project) (the “Bonds”), pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, a Resolution adopted by the Board of Directors of the Authority (the “Authority Resolution”) on September 23, 2019, a Resolution adopted by the City Council of the City (the “City Resolution,” and together with the Authority Resolution, the “Resolutions”) on September 23, 2019, and the Indenture, dated as of October 1, 2019 (the “Indenture”), by and between the Authority and _____, as trustee (the “Trustee”).

The Bonds are special limited obligations of the Authority. The Bonds are payable solely from and secured by a first pledge of the Revenues (defined herein) received by the Authority from the City under (i) a Lease Agreement, dated as of October 1, 2019, by and between the City, and the Authority (the “Lease Agreement”), and (ii) an Installment Sale Agreement, dated as of October 1, 2019, by and between the City and the Authority (the “Installment Sale Agreement” and, together with the Lease Agreement, the “Agreements”), and from certain interest and other income derived from certain funds and accounts held under the Indenture (collectively, the “Revenues”).

Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture and in the Agreements.

In such connection, we have reviewed the Indenture, the Agreements, the Tax Certificate of the City and the Authority, dated the date hereof (the “Tax Certificate”), opinions of general counsel to the City and Authority, certifications of the City, the Authority, and others, and such other documents, opinions, and

matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon representations of the City and the Authority contained in the Resolutions and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

The opinions expressed herein are expressed only on and as of the date hereof and are based on an analysis of existing laws, regulations, rulings, and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. Changes to existing law may occur hereafter and could have retroactive effect. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, all parties thereto. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted, or certified in the documents, and of the legal conclusions contained in the opinions referred to in the paragraph directly above.

Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions, the Indenture, the Agreements, and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions, or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Resolutions, the Indenture, the Agreements and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium, and other similar laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities, joint powers authorities, and nonprofit public benefit corporations in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability, or waiver provisions contained in the documents mentioned in the previous sentence.

We undertake no responsibility for the accuracy, completeness, or fairness of the transactions or other economic terms relating to the Bonds or the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge and lien on the Revenues and any other amounts (including certain proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Lease Agreement has been duly executed and delivered by the City and the obligation of the City to pay the Base Rental Payments constitutes a valid and binding limited obligation of the City.

4. The Installment Sale Agreement has been duly executed and delivered by the City and the obligation of the City to pay the Installment Payments constitutes a valid and binding limited obligation of the City.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. The Bonds are a “qualified tax-exempt obligation” within the meaning of section 265(b)(3) of the Code, and, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction is allowed for 80 percent of that portion of such financial institutions’ interest expense allocable to interest payable with respect to the Bonds.

Except as stated in paragraph 5 above, we express no opinion as to federal or State of California tax consequences of the ownership of the Bonds. We also express no opinion regarding any other tax consequences with respect to the acquisition, ownership, or disposition of, or the accrual or receipt of interest on, the Bonds.

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 Resolution, the Indenture, the Lease Agreement and/or 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.

Respectfully submitted,

APPENDIX F

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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

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

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

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

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

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

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

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

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

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

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

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

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

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY