



## SOUTH GATE UTILITY AUTHORITY MEETING AGENDA

Tuesday, November 26, 2019 at 5:00 p.m.

### I. Call To Order/Roll Call

**CALL TO ORDER**

Maria Davila, Chair

**ROLL CALL**

Carmen Avalos, Recording Secretary

### II. Authority Officials

**CHAIRPERSON**

Maria Davila

**EXECUTIVE DIRECTOR**

Michael Flad

**VICE CHAIRPERSON**

M. Belen Bernal

**SECRETARY**

Carmen Avalos

**BOARD OF DIRECTORS**

Denise Diaz

Al Rios

Bill De Witt

**DIRECTOR OF PUBLIC WORKS**

Arturo Cervantes

**LEGAL COUNSEL**

Raul F. Salinas

### III. Meeting Compensation Disclosure

Pursuant to Government Code Section 54952.3: Disclosure of compensation for meeting attendance by Board Members is \$50 per meeting.

### IV. Open Session Agenda

#### 1. Re-Organization

The South Gate Utility Authority will re-organize and make the following appointments: (ADMIN)

a. Appointing Mayor Belén Bernal as Chairperson;

- b. Appointing Vice Mayor Denise Diaz as Vice Chairperson;
- c. Appointing Council Members Maria Davila, Bill De Witt and Al Rios as Board Members;
- d. Appointing City Manager Michael Flad as Executive Director;
- e. Appointing City Clerk Carmen Avalos as Recording Secretary;
- f. Appointing Director of Administrative Services Jackie Acosta as Treasurer and Chief Financial Officer;
- g. Secretary position to remain vacant; and
- h. Appointing City Attorney Raul F. Salinas as Authority Counsel.

Documents:

[ITEM 1 REPORT 112619 UA.PDF](#)

## **2. Resolution Establishing A Regular Meeting Schedule**

The South Gate Utility Authority will consider adopting a **Resolution** \_\_\_\_\_ establishing a regular meeting schedule and providing for other matters related thereto. (ADMIN SVCS)

Documents:

[ITEM 2 REPORT 112619 UA.PDF](#)

## **3. Resolution Refinancing Outstanding Water Revenue Bonds**

The South Gate Utility Authority will consider adopting a **Resolution** \_\_\_\_\_ authorizing the issuance of its Water Revenue Refunding Bonds, 2019 Series A, and its Taxable Water Revenue Refunding Bonds, 2019 Series A-T; approving an Indenture of Trust, a Continuing Disclosure Agreement, a Preliminary Official Statement, a Bond Purchase Contract and Escrow Agreements; appointing the professional financing team; and authorizing certain other actions in connection therewith. (ADMIN SVCS)

Documents:

[ITEM 3 REPORT 112619 UA.PDF](#)

## **4. Adoption Of A Debt Management Policy And Continuing Disclosure Undertaking Policy**

The South Gate Utility Authority will consider adopting a **Resolution** \_\_\_\_\_ approving a Debt Management Policy and Continuing Disclosure

Undertaking Policy and authorizing certain actions in connection therewith. (ADMIN SVCS)

Documents:

[ITEM 4 REPORT 112619 UA.PDF](#)

## **5. Minutes**

The South Gate Utility Authority will consider approving the Meeting minutes of June 13, 2017. (CLERK)

Documents:

[ITEM 5 REPORT 112619 UA.PDF](#)

## **V. Comments From The Audience**

During this time, members of the public and staff may address the Board of Directors regarding any items within the subject matter jurisdiction of the Public Utility Authority. Comments from the audience will be limited to five (5) minutes per speaker; unless authorized by the Chairperson, the time limit may not be extended by utilizing another member's time. There will be no debate or action on items not listed on the agenda unless authorized by law.

Note: The Board of Directors desires to provide all members of the public with the opportunity to address the Board. Nevertheless, obscene language, comments intended to disrupt or interfere with the progress of the meeting or slanderous comments will not be tolerated and may result in ejection and/or may constitute a violation of South Gate Municipal Code Section 1.04.110.

## **VI. Comments From The Authority Members**

During this time, the Board of Directors will report on matters pertaining to their service on various intergovernmental boards and commissions as a representative of the City pursuant to Assembly Bill 1234. The Board of Directors will also have an opportunity to comment on matters not on the agenda.

Following the Board of Directors, reports and comments will be heard by the Secretary, Treasurer and President.

## **VII. Adjournment**

I, Carmen Avalos, Secretary, certify that a true and correct copy of the foregoing Meeting Agenda was posted on November 21, 2019, at 6:28 p.m., as required by law.

Carmen Avalos,

## City Clerk

Materials related to an item on this Agenda submitted to the City Council after distribution of the agenda packet are available for public inspection in the City Clerk's Office

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(323) 563-9510 \* fax (323) 563-5411 \* [www.cityofsouthgate.org](http://www.cityofsouthgate.org)

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Notification 48 hours prior to the City Council Meeting will enable the City to make reasonable arrangements to assure accessibility.

# City of South Gate

## SOUTH GATE UTILITY AUTHORITY

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# AGENDA BILL

NOV 20 2019

5:40pm

CITY OF SOUTH GATE  
OFFICE OF THE CITY MANAGER

For the Regular Meeting of: November 26, 2019

Originating Department: Administration

Executive Director:

Michael Flad  
Michael Flad

Executive Director:

Michael Flad  
Michael Flad

**SUBJECT: SOUTH GATE UTILITY AUTHORITY RE-ORGANIZATION**

**PURPOSE:** This item allows the South Gate Utility Authority to re-organize and make required appointments.

**RECOMMENDED ACTIONS:** The South Gate Utility Authority will re-organize and make the following appointments:

- a. Appoint Mayor Belén Bernal as Chairperson;
- b. Appoint Vice Mayor Denise Diaz as Vice Chairperson;
- c. Appoint Council Members Maria Davila, Bill De Witt and Al Rios as Board Members;
- d. Appoint City Manager Michael Flad as Executive Director;
- e. Appoint City Clerk Carmen Avalos as Recording Secretary;
- f. Appoint Director of Administrative Services Jackie Acosta as Treasurer and Chief Financial Officer;
- g. Secretary position to remain vacant; and
- h. Appoint City Attorney Raul F. Salinas as Authority Counsel.

**FISCAL IMPACT:** None.

**ANALYSIS:** None.

**BACKGROUND:** During the regularly scheduled City Council Meeting of September 24, 2019, the City Council selected Belén Bernal to serve as Mayor and Denise Diaz to continue serving as Vice Mayor. At the regularly scheduled City Council Meeting of October 22, 2019, the City Council appointed Bill De Witt to serve as Council Member to fill the vacancy for the remainder of the unexpired term. As such, the Utility Authority will re-organize accordingly.

The South Gate Utility Authority meets as needed.

**ATTACHMENTS:** None.

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NOV 20 2019

City of South Gate

SOUTH GATE UTILITY AUTHORITY

CITY OF SOUTH GATE  
OFFICE OF THE CITY MANAGER

9:50am

AGENDA BILL

For the Regular Meeting of: November 26, 2019

Originating Department: Administrative Services

Department Director:

  
Jackie Acosta

Executive Director:

  
Michael Flad

**SUBJECT: ESTABLISHMENT OF A REGULAR MEETING SCHEDULE FOR THE SOUTH GATE UTILITY AUTHORITY**

**PURPOSE:** For the South Gate Utility Authority to establish a regular meeting schedule to comply with Government Code 6592.1.

**RECOMMENDED ACTION:** Adopt Resolution establishing a regular meeting schedule and providing for other matters related thereto.

**FISCAL IMPACT:** None.

**ANALYSIS:** Staff will be recommending in a subsequent agenda bill that the Board of Directors of the South Gate Utility Authority (“Authority”) commence proceedings to refinance the outstanding 2012 Water Revenue Bonds. Before taking such action, it is recommended that the Authority set a regular meeting schedule.

**BACKGROUND:** The City of South Gate and the Community Development Commission of the City of South Gate entered into a Joint Exercise of Powers Agreement, dated as of August 28, 2001, establishing the Authority. The Authority was established for the purpose of, among other things, providing financing and refinancing for purposes which are authorized by law and which could lease, own, operate and maintain the utility system.

To date, the Authority has not established a regular public meeting schedule, due in large part to a lack of regular business items for the Authority to attend to. Since the Authority’s last bond issuance, changes in State law, however, require that any resolution of the Authority authorizing the issuance of bonds, or accepting the benefit or proceeds of any bonds, be adopted at a regular meeting of the Authority. (Government Code § 6592.1<sup>1</sup>.) Section 3.04(b) of Article III of the Authority’s bylaws allows the Board by resolution to set a regular meeting schedule.

In light of this, it is advisable for the Authority to adopt the attached Resolution establishing a regular meeting schedule in anticipation of future financial transactions. The proposed meeting schedule is contemporaneous with regular meetings of the South Gate City Council. The proposed Resolution provides that if there is no

<sup>1</sup> Government Code §6592.1. A resolution authorizing bonds or any issuance of bonds or accepting the benefit of any bonds or the proceeds of bonds shall be adopted by an authority only during a regular meeting held pursuant to Section 54954.

business for the Authority to attend to at its regularly scheduled meeting, no agenda will be posted and the meeting will automatically be canceled.

**ATTACHMENTS:** Proposed Resolution

UTILITY AUTHORITY RESOLUTION NO. 19-\_\_\_\_\_

CITY OF SOUTH GATE  
LOS ANGELES COUNTY, CALIFORNIA

**A RESOLUTION OF THE SOUTH GATE UTILITY AUTHORITY OF  
THE CITY OF SOUTH GATE, CALIFORNIA, ESTABLISHING A  
REGULAR MEETING SCHEDULE AND PROVIDING FOR OTHER  
MATTERS RELATED THERETO**

**WHEREAS**, the City of South Gate, California (“City”) and the former Community Development Commission of the City of South Gate have heretofore entered into that certain Joint Exercise of Powers Agreement, dated as of August 28, 2001, establishing the South Gate Utility Authority (“Authority”) for the purpose of, among other things, leasing, owning, operating and maintaining the utility system; and

**WHEREAS**, in light of changes in State law applicable to the conduct of business by the Authority, it is advisable for the Authority to establish a more frequent regular meeting schedule.

**NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE SOUTH GATE UTILITY AUTHORITY DOES HEREBY RESOLVE AS FOLLOWS:**

**Section 1. Recitals.** The Board of Directors of the South Gate Utility Authority (“Board”) hereby finds and declares that the above recitals are true and correct, and incorporates them into this Resolution.

**Section 2. Regular Meeting Schedule.** The Board hereby establishes a regular meeting schedule of the Authority consisting of the second (2<sup>nd</sup>) and fourth (4<sup>th</sup>) Tuesday of every month, for which an agenda is posted at least 72 hours in advance of such meeting (each, a “Regular Meeting”). Each such regular meeting shall be held at 5:30 p.m. at 8650 California Avenue, South Gate, California, 90280.

**Section 3. Cancellations without Convening.** If there is no scheduled business to conduct, no agenda for the Authority shall be posted and such Regular Meeting shall be automatically canceled thereby.

**Section 4. Amendment of Meeting Schedule.** The Regular Meeting schedule established herein may be amended by the adoption of a supplemental resolution by the Board.

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**Section 5. Delegation of Authority.** The Chair, the Executive Director and any one of their respective designees, are, and each of them is, hereby authorized and directed to do any and all things, and to execute and deliver any and all documents which such officers may deem necessary or advisable to carry out, give effect to and comply with the terms and intent of this Resolution.

**Section 6. Certification.** The Recording Secretary of the South Gate Utility Authority shall certify to the adoption of this Resolution which shall be effective upon its adoption.

**PASSED, APPROVED and ADOPTED** this 26<sup>th</sup> day of Novmber, 2019.

**SOUTH GATE UTILITY AUTHORITY:**

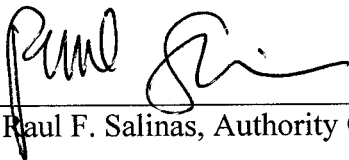
By: \_\_\_\_\_  
Belén Bernal, Chairperson

**ATTEST:**

By: \_\_\_\_\_  
Carmen Avalos, Recording Secretary

(SEAL)

**APPROVED AS TO FORM:**

By:  \_\_\_\_\_  
Raul F. Salinas, Authority Counsel

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**Item No. 3**

NOV 20 2019

CITY OF SOUTH GATE  
OFFICE OF THE CITY MANAGER

2:10pm

# City of South Gate

**SOUTH GATE UTILITY AUTHORITY**

# AGENDA BILL

For the Regular Meeting of: November 26, 2019  
Originating Department: Administrative Services

Department Director: *Jackie Acosta*  
*Jackie Acosta*

Executive Director: *Michael Flad*  
*Michael Flad*

**SUBJECT:** ISSUANCE OF WATER REVENUE REFUNDING BONDS AND APPROVING DOCUMENTS RELATED THERETO INCLUDING A FORM OF BOND INDENTURE, CONTINUING DISCLOSURE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT, BOND PURCHASE CONTRACT, ESCROW AGREEMENTS, AND OTHER RELATED DOCUMENTS.

**PURPOSE:** To refinance outstanding Water Revenue Bonds, Series 2012, for savings.

**RECOMMENDED ACTION:** Adopt Resolution authorizing the issuance of its Water Revenue Refunding Bonds, 2019 Series A, and its Taxable Water Revenue Refunding Bonds, 2019 Series A-T; approving an Indenture of Trust, a Continuing Disclosure Agreement, a Preliminary Official Statement, a Bond Purchase Contract and Escrow Agreements; appointing the professional financing team; and authorizing certain other actions in connection therewith.

**FISCAL IMPACT:** This refinancing will generate present value savings of approximately \$2.9 million, increase cash flow savings and level out Authority debt service. The overall debt burden will be reduced by \$7.6M. Outstanding principal will be \$1.3M less and interest will be \$6.3M less than what is currently outstanding. Final savings will depend on bond market conditions at time of sale.

**ANALYSIS & BACKGROUND:** On August 8, 2012, the South Gate Utility Authority (“Authority”) issued \$34,170,000 in Water Revenue Bonds, 2012 Series (“2012 Bonds”) to refinance a portion on the Authority’s 2001 revenue bonds (“2001 Bonds”), fund a lease prepayment to the City, and fund additional water projects. Currently \$32,745,000 of 2012 Bonds remaining outstanding at an average interest cost of 4.47%. The 2012 Bonds are redeemable (callable) in part on October 1, 2019 and in part on October 1, 2022. The Authority is proposing to refinance the outstanding 2012 Bonds and prepay the \$1,385,000 in outstanding 2001 Bonds, due October 1, 2020, from existing 2001 bond reserve fund investments held by the 2001 bond trustee. These actions will allow the 2019 Bonds to be sold on a senior basis and at the lowest available interest cost thereby maximizing savings. Additionally, refunding the portion of 2012 bonds callable in 2022 now will also avoid a possible second refunding in 2022 and the associated costs and staff time.

Based on current market conditions, present value savings of the refunding program are expected to be \$2.9 million or 8.99% of the 2012 Bonds refunded. Most debt policies require net present value savings of between 3% and 5 % to warrant a refunding. With this refunding, we are achieving significantly higher savings of 8.99%. The refinancing will also allow the Authority to release \$2.9 million in bond reserve funds which can be applied to reduce the number of bonds refunded. Bond debt service is proposed to be level through FY 2035/36. Upon completion of the refunding program, the proposed \$31.4 million in Series 2019 Water Revenue Refunding Bonds (2019 Bonds) will be the only bonds outstanding. Interest rates are being reduced from 4.47% to an expected 2.79%. The 2019 Bonds are proposed to be underwritten by Raymond James, an established bond underwriter. The City sent out an RFP for a bond underwriter and five underwriter proposals were received. The bond rating is AA- by Standard & Poor's, a rating upgrade from the current A+. Annual debt service coverage from water system net revenue on the 2019 Bonds is expected to be well over 200%, a very high coverage ratio.

The 2019 Bonds are proposed to be sold in two series, a taxable series and a tax-exempt series. A taxable series is required since a portion of the 2012 Bonds are not callable until October 1, 2022. As a result of the 2017 tax reform act, tax exempt bonds can only be issued to refund bonds callable within 90 days. In the case of the 2012 Bonds, refunding the \$9,710,000 of term bonds qualifies as tax-exempt and can be called upon 30 days' notice and \$23,035,000 of the 2012 serial bonds cannot be called until October 1, 2022.

All cost of issuance will be funded from the proceeds of the 2019 Bonds and there will be no City general fund obligation. The 2019 Bonds are solely secured by a pledge of net water revenues from the Authority. No water rate increases are required or assumed.

The 2019 Bonds will also require that the Utility Authority maintain a cash reserve equal to six months of water system operating expenses or approximately \$6 million so long as the 2019 Bonds are outstanding. Currently, the Utility Authority's water enterprise has over \$25 million in available cash.

The Bonds are secured by net revenues of the water enterprise. Net revenues are gross revenues minus operating and maintenance costs. The Authority covenants to maintain its rates and charges to have sufficient Net Revenue to make debt service payments at a 120% coverage level. There is no specific reserve fund securing the Bonds.

A summary of each of the legal documents being approved as part of this refinancing are:

**Indenture of Trust:** The key legal document that lays out the legal structure and terms of the financing. It specifies payment dates, maturity dates of the Bonds; revenues and accounts specifically pledged to the repayment of the Bonds; flow of funds; default and remedy provisions; defeasance provisions in the event the Bonds are redeemed early; and covenants of the Authority. It is drafted by Bond Counsel and executed by the Authority and Trustee.

**Continuing Disclosure Agreement:** This agreement outlines the updated information related to the security that the Authority will agree to provide to the bond markets. Disclosure is required annually, and on an exceptional basis for any major "material" event. This document is drafted by Disclosure Counsel and executed by the Authority.

**Preliminary Official Statement:** This document describes the security for the bonds and discloses potential risks to prospective investors. It will generally describe the sources of payment for the Bonds, the financial condition of the Authority's water enterprise, the economic and demographic

characteristics of the City and water enterprise, and inherent known risk factors associated with the Bonds. It is important that this document not contain any material misstatements or omissions. The Preliminary Official Statement (often referred to as the “POS”) is distributed by the underwriter to prospective investors prior to the bond sale so that they can make informed purchase decisions. The POS should be as close to final as possible with the actual terms of the pricing (interest rates and principal amounts) necessarily left blank. The Final Official Statement will be prepared shortly after the bond sale and must be available in time for bond closing. The POS and FOS are drafted by Disclosure Counsel and are executed by the Authority.

**Bond Purchase Contract:** This contract is executed on the day of the bond sale, and specifies the actual principal amounts, interest rates and prices of the Bonds. In it, Raymond James commits to purchase the bonds at closing at the agreed upon prices and amounts subject to certain closing conditions. Closing conditions generally relate to the execution and validity of all required documents and the absence of material changes in the nature of the security. It is drafted by Disclosure Counsel and reviewed by City Attorney and executed by the Authority and the underwriter.

**Escrow Agreements:** These agreements provide that proceeds from the Bonds will be deposited with the trustee for the 2001 Bonds and 2012 Bonds and used to redeem and defease the 2001 Bonds and 2012 Bonds. It is drafted by Bond Counsel and executed by the Authority and prior trustee.

The resolution also includes the appointing of Columbia Capital Management, LLC, Glendale, California (“Municipal Advisor”), as municipal advisor to the Authority, Norton Rose Fulbright US LLP, Los Angeles, California (“Bond Counsel”), as bond and disclosure counsel to the Authority, and Raymond James & Associates, Inc., as underwriter for the Bonds.

The public disclosures required under SB 450, effective January 1, 2018, are incorporated herein. The estimates have been determined as of November 19, 2019. Specifically:

- 1) The true interest cost of the bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds is estimated to be 2.79%.
- 2) The finance charge of the bonds, which means the sum of all fees and charges paid to third parties is estimated to be approximately \$371,000. Bond insurance premiums, which lower interest cost in excess of the fees charged, are estimated to be \$0. Such insurance is not expected to be cost effective.
- 3) The amount of proceeds received by the public body for sale of the bonds less the finance charge of the bonds described and any reserves or capitalized interest paid or funded with proceeds of the bonds is estimated to be \$32,053,386.
- 4) The total payment amount is the sum total of all payments the borrower will make to pay debt service on the bonds plus any finance charge of the bonds not paid with the proceeds of the bonds. The total payment amount calculated to the final maturity of the bonds is estimated to be \$40,330,455.

- ATTACHMENTS:**
1. Proposed Resolution
  2. Indenture of Trust
  3. Continuing Disclosure Agreement (Appendix D within the POS)
  4. Preliminary Official Statement
  5. Bond Purchase Contract
  6. 2012 Bonds Escrow Agreement
  7. 2001 CABs Escrow Agreement

**UTILITY AUTHORITY RESOLUTION NO. 19-\_\_\_\_\_**

**CITY OF SOUTH GATE  
LOS ANGELES COUNTY, CALIFORNIA**

**A RESOLUTION OF THE SOUTH GATE UTILITY AUTHORITY OF THE CITY OF SOUTH GATE, CALIFORNIA, AUTHORIZING THE ISSUANCE OF ITS WATER REVENUE REFUNDING BONDS, 2019 SERIES A, AND ITS TAXABLE WATER REVENUE REFUNDING BONDS, 2019 SERIES A-T; APPROVING AN INDENTURE OF TRUST, A CONTINUING DISCLOSURE AGREEMENT, A PRELIMINARY OFFICIAL STATEMENT, A BOND PURCHASE CONTRACT AND ESCROW AGREEMENTS; APPOINTING THE PROFESSIONAL FINANCING TEAM; AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH**

**WHEREAS**, the South Gate Utility Authority (“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 August 28, 2001, by and between the City of South Gate (“City”) and the former Redevelopment Agency of the City of South Gate 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 (“Act”), and is authorized pursuant to Article 4 of the Act (“Bond Law”) to borrow money for the purpose of financing and refinancing capital improvements of member entities of the Authority; and

**WHEREAS**, under the Bond Law, the Authority is authorized to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities and to provide financing and refinancing for public capital improvements of public entities; and

**WHEREAS**, the City had previously requested that the Authority assist it in its financing objectives by leasing the water supply and distribution system (“Water Enterprise”) from the City and financing certain capital improvements to the Water Enterprise; and

**WHEREAS**, the Authority leased the Water Enterprise pursuant to a Lease Agreement (“Water Enterprise”), dated as of November 1, 2001, by and between the Authority as lessee and the City as lessor (as amended from time to time, the “Water Lease”), and the Authority contracted with the City as the Authority’s agent for purposes of operating the Water Enterprise; and

**WHEREAS**, for the purpose of, among other things, financing the lease of the Water Enterprise and certain capital improvements to the Water Enterprise, the Authority previously issued its \$30,965,451.15 Subordinate Revenue Bonds, 2001 Series (Water and Sewer System Projects) (“2001 Bonds”); and

**WHEREAS**, for the purpose of refunding a portion of the 2001 Bonds consisting of the current interest bonds secured by revenues of the Water Enterprise, financing an additional upfront lease payment relating to the Water Enterprise and certain capital improvements to the Water

Enterprise, the Authority previously issued its \$34,170,000 Water Revenue Bonds, 2012 Series A (“2012 Bonds”), which 2012 Bonds are on parity with the 2001 Bonds consisting of the capital appreciation bonds secured by revenues of the Water Enterprise (“2001 CAB Bonds”); and

**WHEREAS**, due to sufficient amounts available in the funds and accounts relating to the 2001 Bonds to pay the maturity amounts of the 2001 CAB Bonds when due, the Authority desires to enter into an escrow agreement to defease the 2001 CAB Bonds; and

**WHEREAS**, for the purpose of refunding, on a current basis, the 2012 Bonds maturing on October 1, 2037 (“2012 Term Bonds”), the Authority has determined to issue its Water Revenue Refunding Bonds, 2019 Series A (“Tax-Exempt Bonds”), in an aggregate principal amount not to exceed \$10,000,000, and for the purpose of advance refunding the remaining 2012 Bonds (“2012 Serial Bonds”), the Authority has determined to issue its Taxable Water Revenue Refunding Bonds, 2019 Series A-T (“Taxable Bonds”), in the aggregate principal amount not to exceed \$25,000,000 (the Tax-Exempt Bonds and the Taxable Bonds are referred to herein collectively as the “Bonds”), which Bonds will be secured by net revenues of the Water Enterprise; and

**WHEREAS**, Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) (“SB 450”) requires that the governing body of a public body obtain prior to authorizing the issuance of bonds with a term of greater than 13 months, good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the bonds, (b) the sum of all fees and charges paid to third parties with respect to the bonds, (c) the amount of proceeds of the bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the bonds, and (d) the sum total of all debt service payments on the bonds calculated to the final maturity of the bonds plus the fees and charges paid to third parties not paid with the proceeds of the bonds; and

**WHEREAS**, it is proposed that the Bonds be sold on a negotiated basis to Raymond James & Associates, Inc. in accordance with the terms and provisions of a Bond Purchase Contract (“Purchase Contract”), the proposed form of which has been presented to this Board; and

**WHEREAS**, there have been presented at this meeting the proposed forms of the following documents:

- (a) the Indenture of Trust;
- (b) the Continuing Disclosure Agreement;
- (c) the Preliminary Official Statement;
- (d) the Bond Purchase Contract;
- (e) the 2012 Bonds Escrow Agreement; and
- (f) the 2001 Capital Appreciation Bonds Escrow Agreement.

**WHEREAS**, the Board has reviewed the documentation related to the issuance of the Bonds, which documentation is on file with the Secretary of the Authority.

**NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE SOUTH GATE UTILITY AUTHORITY DOES HEREBY RESOLVE AS FOLLOWS:**

**SECTION 1.** The foregoing recitals are true and correct and are incorporated into this Resolution by this reference, and constitute a material part of this Resolution.

**SECTION 2.** Pursuant to the Bond Law, the Authority hereby approves the issuance of its Water Revenue Refunding Bonds, 2019 Series A, in an aggregate principal amount not to exceed Ten Million Dollars (\$10,000,000), and its Taxable Water Revenue Refunding Bonds, 2019 Series A-T, in the aggregate principal amount not to exceed Twenty-Five Million Dollars (\$25,000,000).

**SECTION 3.** The Authority hereby approves the Indenture of Trust (“Indenture”) relating to the Bonds, substantially in the form on file with the Recording Secretary of the Authority and incorporated herein by reference with such revisions, amendments and completions as shall be approved by a Responsible Officer with the advice of Bond Counsel to the Authority in consultation with the Authority Counsel. A Responsible Officer of the Authority shall execute and deliver the Indenture in the name of, and on behalf of, the Authority, and such execution shall be conclusive evidence of approval of any such changes and additions. A Responsible Officer shall include any of the members of the Authority Board of Directors, Executive Director, Treasurer or Recording Secretary of the Authority, or any official of the Authority designated by the Chairperson or Vice Chairperson of the Authority as a Responsible Officer.

**SECTION 4.** The Authority hereby approves the Continuing Disclosure Agreement, by and between the Authority and the Trustee under the Indenture, substantially in the form on file with the Recording Secretary of the Authority and incorporated herein by reference with such revisions, amendments and completions as shall be approved by a Responsible Officer with the advice of Bond Counsel and Disclosure Counsel to the Authority in consultation with the Authority Counsel. A Responsible Officer of the Authority shall execute and deliver the Continuing Disclosure Agreement in the name of, and on behalf of, the Authority, and such execution shall be conclusive evidence of approval of any such changes and additions.

**SECTION 5.** The Preliminary Official Statement, in substantially the form on file with the Recording Secretary and presented to the Board at this meeting, is hereby approved with such revisions, amendments and completions as shall be approved by a Responsible Officer to make the Preliminary Official Statement final as of its date, except for the omission of certain information, as permitted by Section 240.15c2-12(b)(1) of Title 17 of the Code of Federal Regulations (“Rule 15c2-12”). Any Responsible Officer is authorized to execute a certificate relating to the finality of the Preliminary Official Statements under Rule 15c2-12. A Responsible Officer is authorized and directed to execute and deliver the final Official Statement in substantially the form of the Preliminary Official Statement, with such additions and changes as may be approved by a Responsible Officer executing the same with the advice of Disclosure Counsel in consultation with the Authority Counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

**SECTION 6.** The Authority hereby authorizes the sale of the Bonds to the underwriter pursuant to, and in accordance with, the Bond Purchase Contract, which Bond Purchase Contract the Authority hereby approves in substantially the form on file with the Recording Secretary and



presented to the Board at this meeting. Any Responsible Officer is hereby authorized to execute the Bond Purchase Contract, in substantially the form presented hereto, with such insertions and changes as may be approved by the Responsible Officer executing the same, subject to the provisions of this Resolution, such approval to be conclusively evidenced by such execution and delivery. The underwriter's discount for the Bonds specified in the Bond Purchase Contract shall not exceed 1.0%, exclusive of original issue discount. The net present value savings shall exceed at least 5% for the Bonds. The maturity date of the Bonds shall not extend beyond the final maturity of the 2012 Bonds.

**SECTION 7.** The Authority hereby approves the 2012 Bonds Escrow Agreement, as one or more agreements, by and between the Authority and the Escrow Agent under the 2012 Bonds Escrow Agreement, substantially in the form on file with the Recording Secretary of the Authority and incorporated herein by reference with such revisions, amendments and completions as shall be approved by a Responsible Officer with the advice of Bond Counsel to the Authority in consultation with the Authority Counsel. A Responsible Officer of the Authority shall execute and deliver the 2012 Bonds Escrow Agreement in the name of, and on behalf of, the Authority, and such execution shall be conclusive evidence of approval of any such changes and additions.

**SECTION 8.** The Authority hereby approves the 2001 Capital Appreciation Bonds ("CAB") Escrow Agreement, by and between the Authority and the Escrow Agent under the 2001 CAB Escrow Agreement, substantially in the form on file with the Recording Secretary of the Authority and incorporated herein by reference with such revisions, amendments and completions as shall be approved by a Responsible Officer with the advice of Bond Counsel to the Authority in consultation with the Authority Counsel. A Responsible Officer of the Authority shall execute and deliver the 2001 CAB Escrow Agreement in the name of, and on behalf of, the Authority, and such execution shall be conclusive evidence of approval of any such changes and additions.

**SECTION 9.** The Authority hereby appoints Columbia Capital Management, LLC, Glendale, California ("Municipal Advisor"), as municipal advisor to the Authority, Norton Rose Fulbright US LLP, Los Angeles, California ("Bond Counsel"), as bond and disclosure counsel to the Authority, and Raymond James & Associates, Inc., as underwriter for the Bonds.

**SECTION 10.** In accordance with SB 450, good faith estimates of the following have been presented at this meeting: (a) the true interest cost of the Bonds, (b) the sum of all fees and charges paid to third parties with respect to the Bonds, (c) the amount of proceeds of the Bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Bonds, and (d) the sum total of all debt service payments on the Bonds calculated to the final maturity of the Bonds plus the fees and charges paid to third parties not paid with the proceeds of the Bonds.

**SECTION 11.** The Executive Director of the Authority and each officer of the Authority, and each of them, is hereby authorized and directed, for and in the name of, and on behalf of, the Authority, to do any and all things and take any and all other actions, including the publication of any notices necessary or desirable in connection with the sale of the Bonds, procurement of municipal bond insurance and/or a reserve surety, and execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants, escrow instructions and other documents, which they, or any of them, deem necessary

or advisable to consummate the lawful issuance and sale of the Bonds and the consummation of the transactions as described herein.

**SECTION 12.** The Recording Secretary of the South Gate Utility Authority shall certify to the adoption of this Resolution, which shall be effective upon its adoption.

**PASSED, APPROVED and ADOPTED** this 26<sup>th</sup> day of November, 2019.

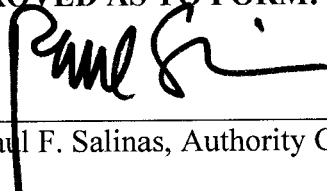
**SOUTH GATE UTILITY AUTHORITY:**

By: \_\_\_\_\_  
Belén Bernal, Chairperson

**ATTEST:**

By: \_\_\_\_\_  
Carmen Avalos, Recording Secretary  
(SEAL)

**APPROVED AS TO FORM:**

By:  \_\_\_\_\_  
Raul F. Salinas, Authority Counsel

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INDENTURE OF TRUST

Dated as of December 1, 2019

by and between

SOUTH GATE UTILITY AUTHORITY

and

U.S. BANK NATIONAL ASSOCIATION  
as Trustee

Authorizing the Issuance of

[\$[Series A principal amount]  
South Gate Utility Authority  
Water Revenue Refunding Bonds, 2019 Series A

and

[\$[Series A-T principal amount]  
South Gate Utility Authority  
Water Revenue Refunding Bonds, 2019 Series A-T

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## INDENTURE OF TRUST

This INDENTURE OF TRUST, dated as of December 1, 2019, is by and between the SOUTH GATE UTILITY AUTHORITY, a joint powers authority duly organized and existing under and by virtue of 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 with a corporate trust office in Los Angeles, 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 August 28, 2001 by and between the City of South Gate (the “City”) and the former Redevelopment Agency of the City of South Gate (the “Agency”) 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 of financing and refinancing capital improvements of member entities of the Authority; and

**WHEREAS**, under the Bond Law, the Authority is authorized to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities and to provide financing and refinancing for public capital improvements of public entities; and

**WHEREAS**, the City had previously requested that the Authority assist it in its financing objectives by leasing the water supply and distribution system (the “Water Enterprise”) from the City and financing certain capital improvements to the Water Enterprise; and

**WHEREAS**, the Authority leased the Water Enterprise pursuant to a Lease Agreement (Water Enterprise), dated as of November 1, 2001, by and between the Authority as lessee and the City as lessor (as amended from time to time, the “Water Lease”), and the Authority contracted with the City as the Authority’s agent for purposes of operating the Water Enterprise; and

**WHEREAS**, for the purpose, among other things, of financing the lease of the Water Enterprise and certain capital improvements to the Water Enterprise, the Authority previously issued its \$30,965,451.15 Subordinate Revenue Bonds, 2001 Series (Water and Sewer System Projects) (the “2001 Bonds”); and

**WHEREAS**, for the purpose of refunding a portion of the 2001 Bonds consisting of the current interest bonds secured by revenues allocable to the Water Enterprise, financing additional upfront lease payments relating to the Water Enterprise and certain capital improvements to the Water Enterprise, the Authority previously issued its \$34,170,000 Water Revenue Bonds, 2012 Series A (the “2012 Bonds”), which 2012 Bonds are on a parity with the 2001 Bonds consisting of the capital appreciation bonds secured by revenues allocable to the Water Enterprise (the “2001 CAB Bonds”); and

**WHEREAS**, for the purpose of defeasing the 2001 CAB Bonds, the Authority has entered into an escrow agreement with the Trustee; and

**WHEREAS**, for the purpose of refunding the 2012 Bonds maturing on October 1, 2037 (the “2012 Term Bonds”), the Authority has determined to issue its Water Revenue Refunding Bonds, 2019 Series A (the “Tax-Exempt Bonds”) in the aggregate principal amount of \$ \_\_\_\_\_; and

**WHEREAS**, for the purpose of refunding the remaining 2012 Bonds (the “2012 Serial Bonds”), the Authority has determined to issue its Taxable Water Revenue Refunding Bonds, 2019 Series A-T (the “Taxable Bonds”) in the aggregate principal amount of \$ \_\_\_\_\_; and

**WHEREAS**, the Tax-Exempt and Taxable Bonds (collectively, the “Bonds”) shall be issued pursuant to and secured by this Indenture in the manner provided herein, which will be secured by revenues of the Water Enterprise; and

**WHEREAS**, the Authority has determined that 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 and interest and premium (if any) thereon, the Authority has authorized the execution and delivery of this Indenture; and

**WHEREAS**, the Authority hereby certifies that 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 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 consideration, 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. In addition, all capitalized terms used herein and not otherwise defined in this Section 1.01 shall have the respective meanings given such terms in the Lease Agreement.

“Additional Bonds” mean an additional Series of Bonds constituting Parity Obligations authorized by a Supplemental Indenture that is issued pursuant to this Indenture.

“Agency” means the former Redevelopment Agency of the City of South Gate, a public body corporate and politic organized under the laws of the State, and any successor thereto.

“Agreement” means that certain Joint Exercise of Powers Agreement, dated as of August 28, 2001, by and between the City and the Agency, as hereafter duly amended and supplemented from time to time, currently with the City and the Successor Agency as its members, creating the Authority for the purposes, among other things, of assisting the City in the financing and refinancing of Public Capital Improvements, as such term is defined in the Bond Law.

“Allocated Water Costs” means amounts payable to the City based on an allocation of City overhead to the Water Enterprise.

“Annual Debt Service” means, for each Fiscal Year the sum of (1) the interest accruing on all Parity Debt during such Fiscal Year, assuming that all Parity Debt is retired as scheduled, plus (2) the principal amount (including principal due as sinking fund installment payments) allocable to all Parity Debt in such Fiscal Year, calculated as if such principal amounts were deemed to accrue daily during such Fiscal Year in equal amounts from, in each case, each payment date for principal or the date of delivery of such Parity Debt (provided that principal shall not be deemed to accrue for greater than a 365-day period prior to any payment date), as the case may be, to the next succeeding payment date for principal, *provided*, that the Annual Debt Service shall not include principal and interest payments on Parity Debt payable from (i) amounts held in trust in an escrow fund or (ii) amount on deposit in the reserve account for making the final payments of principal of and interest on the Parity Debt, and *further provided*, that the following adjustments shall be made to the foregoing amounts in the calculation of Annual Debt Service:

(A) with respect to any such Parity Debt bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Annual Debt Service shall be (i) with respect to such Parity Debt then outstanding, one hundred ten percent (110%) of the greater of (1) the daily average interest rate on such Parity Debt during the twelve (12) calendar months next preceding the date of such calculation (or the portion of the then current Fiscal Year that such Parity Debt has borne interest) or (2) the most recent effective interest rate on such Parity Debt prior to the date of such calculation or (ii) with respect to such Parity Debt then proposed to be issued, the then current 20-Bond GO Index rate as published in The Bond Buyer (or if The Bond Buyer or such index is no longer published, such other published similar index);

(B) with respect to any such Parity Debt having twenty-five percent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service shall be calculated for the Fiscal Year of determination as if the interest on and principal of such Parity Debt were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty (20) years from the date of such Parity Debt; provided, however that the

full amount of such Parity Debt shall be included in Annual Debt Service if the date of calculation is within 24 months of the actual maturity of the payment;

(C) with respect to any such Parity Debt or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Debt or portions thereof, such accreted discount shall be treated as due when scheduled to be paid;

(D) Annual Debt Service shall not include interest on Parity Debt which is to be paid from amounts constituting capitalized interest;

(E) if an interest rate swap agreement is in effect with respect to, and is payable on a parity with, any Parity Debt to which it relates, no amounts payable under such interest rate swap in excess of debt service payable under such Parity Debt agreement shall be included in the calculation of Annual Debt Service unless the sum of (i) the interest payable on such Parity Debt, plus (ii) the amounts payable by the Authority under such interest rate swap agreement, less (iii) the amounts receivable by the Authority under such interest rate swap agreement, are greater than the interest payable on such Parity Debt, in which case the amount of such payments to be made that exceed the interest to be paid on such Parity Debt shall be included in such calculation, and for this purpose, the variable amount under any such interest rate swap agreement shall be determined in accordance with the procedure set forth in subparagraph (A) of this definition; and

(F) if interest on any Parity Debt is reasonably anticipated to be reimbursed to the Authority by the United States of America pursuant to a future program similar to the previously enacted Section 54AA of the Code, then interest payments with respect to such Parity Debt shall be reduced by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.

“Authority” means the South Gate Utility Authority, a joint powers authority duly organized and existing under the Agreement and the laws of the State.

“Authorized Denomination” means denominations of \$5,000 or any integral multiple thereof.

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

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

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

“Bond Fund” means the fund by that name established pursuant to Section 5.03.

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

“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 extend from the Closing Date to October 1, 2020 with respect to the Bonds.

“Bonds” mean, collectively the Tax-Exempt and Taxable Bonds, and, where the context requires, any Additional Bonds.

“Business Day” means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, or in any state in which the Trust Office of the Trustee is located, are closed. If any payment hereunder is due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such previous day.

“Capital Appreciation Bonds” means the 2001 Bonds designated as Capital Appreciation Bonds under the 2001 Bonds Indenture and on which interest is compounded and paid at maturity or prior redemption.

“City” means the City of South Gate, a municipal corporation organized under the laws of the State.

“Closing Date” means December \_\_\_, 2019, being the date of delivery of the Bonds to the Original Purchaser.

“Code” means the Internal Revenue Code of 1986.

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority, initial fees and expenses of the Trustee and its counsel, title insurance premiums, municipal bond insurance premiums and other costs of credit enhancement or a Qualified Reserve Fund Credit Instrument, appraisal fees, compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

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

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amounts: (a) the principal amount of all Outstanding Serial Bonds coming due and payable by their terms in such period; (b) the minimum principal amount of all Outstanding Term Bonds scheduled to be redeemed by operation of mandatory sinking account deposits in such period; and (c) the interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the

Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

“Direct Water Costs” means the reasonable and necessary costs and expenses paid for maintaining and operating the Water Enterprise, including but not limited to (a) costs of acquisition of water to be supplied by the Water Enterprise, (b) cost of electricity and other forms of energy supplied to the Water Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water Enterprise in good repair and working order including, but not limited to, salaries, insurance and retirement benefits of employees of the City providing services to the Water Enterprise, (d) the reasonable administrative costs of the Authority attributable to the operation and maintenance of the Water Enterprise, including all other reasonable and necessary costs of the Authority or City or charges required to be paid by either to comply with the terms hereof or of any Supplemental Indenture or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the Trustee and the Authority and fees and expenses of Independent Accountants, and (e) amounts reasonably required to be set aside in contingency reserves for the Water Enterprise, the payment of which is not then immediately required; but in all cases excluding (i) debt service payable on obligations incurred by the Authority with respect to the Water Enterprise, (ii) depreciation replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

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

“Escrow Agent” means U.S. Bank National Association, a national banking association, duly organized and existing under and by virtue of the laws of the United States of America.

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

“Federal Securities” means any of the following which are noncallable and 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) direct general obligations (including stripped obligations) of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations the payment of principal of and interest on which are directly or indirectly unconditionally guaranteed by, the United States of America;

(b) direct obligations (including stripped obligations) of any department, agency or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America; and

(c) refunded municipal obligations rated AAA by S&P or Aaa by Moody’s, the timely payment of principal of and interest on are fully guaranteed by 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, as its official fiscal year period.

**“Gross Water Revenues”** means, for any Fiscal Year, the sum of all gross charges received for, and all other gross income and receipts derived by the Authority from the lease and operation of the Water Enterprise or otherwise arising from the Water Enterprise, including but not limited to investment earnings thereon, provided that the term “Gross Water Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the Authority, advances or contributions in aid of construction and main extension fees and \_\_\_\_\_.

**“Guaranteed Investment Contracts”** means investment agreements which allow for withdrawals at such times as required by the Indenture with providers whose unsecured obligations are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

**“Housing Authority”** means the South Gate Housing Authority, public body corporate and politic and serving as the housing successor under Division 24, Part 1.85 of the Health and Safety Code, and its successors.

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

**“Information Services”** means Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board, at [www.emma.msrb.org](http://www.emma.msrb.org); and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

**“Initial Amount”** means the amount stated as the initial amount of a Capital Appreciation Bond on its original date of issuance.

**“Interest Account”** means the account by that name established in the Bond Fund pursuant to Section 5.03.

**“Interest Payment Date”** means each April 1 and October 1 of each year, commencing April 1, 2020.

**“Lease Agreement”** means the Lease Agreement (Water System) dated as of November 1, 2001, by and between the Authority and the City, relating to the lease of the Water Enterprise by the Authority from the City.

“Letter of Representations” means the letter of the Authority and the Trustee delivered to and accepted by DTC (or such other applicable Securities Depository) on or prior to the issuance of the Bonds in book entry form setting forth the basis on which DTC (or such other applicable Securities Depository) serves as depository for the Bonds issued in book entry form, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Securities Depository.

“Maturity Amount” means the Accreted Value of any Capital Appreciation Bond on its maturity date.

“Maximum Annual Debt Service” means, as of the date of any calculation, the largest sum of the Annual Debt Service on the Parity Debt during the current or any future Bond Year through the final maturity date of all Parity Debt.

“Moody’s” means Moody’s Investors Service, Inc., its successors and assigns.

“Net Water Revenues” means, for any Fiscal Year, an amount equal to all of the Gross Water Revenues received with respect to such Fiscal Year, minus the amount required to pay all Direct Water Costs becoming payable with respect to such Fiscal Year.

“Original Purchaser” means Raymond James & Associates, Inc., as the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding,” when used as of any particular time with reference to Bonds and Additional Bonds, means (subject to the provisions of Section 12.09) all Bonds and Additional Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.01, including Bonds (or portions thereof) described in Section 12.09; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

“Owner” 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.

“Parity Debt” means the Bonds and any Parity Obligations.

“Parity Obligation Payments” means the payments scheduled to be paid by the Authority, or the City on behalf of the Authority, under and pursuant to the Parity Obligations, which payments are secured by a pledge of Net Water Revenues on a parity with the Bonds as provided herein.

“Parity Obligations,” means the Additional Bonds and any leases, loan agreements, installment sale agreements, bonds, notes or other obligations of the Authority payable from and secured by a pledge of and lien upon the Net Water Revenues on a parity with the Bonds pursuant to this Indenture.

**“Permitted Investments”** means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely upon a Written Request of the Authority directing investments as a certification to the Trustee that such investments are legal investment):

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as Stripped Treasury Coupons rated or assessed in the highest Rating Category by S&P and Moody’s and held by a custodian for safekeeping on behalf of holders of such securities.

(2) Bonds or notes which are exempt from federal income taxes and for the payment of which cash or obligations described in clause (1) of this definition in an amount sufficient to pay the principal of, premium, if any, and interest on when due have been irrevocably deposited with a trustee or other fiscal depository and which are rated in the highest Rating Category by S&P and Moody’s.

(3) Obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Bank System, Government National Mortgage Association, Farmer’s Home Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration; provided that with respect to the funds and accounts established under this Indenture, such obligations shall at no time exceed an amount equal to ten percent (10%) of the aggregate principal amount of the Bonds Outstanding.

(4) Deposit accounts, certificates of deposit or savings accounts (i) fully insured by the Federal Deposit Insurance Corporation or (ii) with banks whose short term obligations are rated no lower than A-1 by S&P and P-1 by Moody’s, including those of the Trustee and its affiliates.

(5) Federal funds or banker’s acceptances with a maximum term of one year of any bank that has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” by Moody’s and “A-1” or “A” or better by S&P (including the Trustee and its affiliates).

(6) Repurchase obligations with a term not exceeding 30 days pursuant to a written agreement between the Trustee and either a primary dealer on the Federal Reserve reporting dealer list which falls under the jurisdiction of the SIPC or a federally chartered commercial bank whose long-term debt obligations are rated A or better by S&P and Moody’s, with respect to any security described in clause (1); provided that the securities which are the subject of such repurchase obligation (i) must be free and clear of all liens, (ii) in the case of a SIPC dealer, were not acquired pursuant to a repurchase or reverse repurchase agreement, (iii) must be deposited with the Trustee and maintained through weekly market valuations in an amount equal to 104% of the invested funds plus

accrued interest; and further provided that the Trustee must have a valid first perfected security interest in such securities.

(7) Taxable government money market portfolios that have a rating by S&P of Am-G or Am or better and rated in one of the three highest rating categories of Moody's consisting of securities issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States, subject to a maximum permissible limit equal to six months of principal and interest on the Bonds, including those portfolios of the Trustee and its affiliates.

(8) Tax-exempt government money market portfolios that have a rating by S&P of Am-G or Am or better and rated in one of the three highest rating categories of Moody's consisting of securities which are rated in the highest Rating Categories of S&P and Moody's subject to a maximum permissible limit equal to six months of principal and interest on the Bonds.

(9) Money market funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by S&P of AA-Am-G or AA-Am and rated in one of the two highest Rating Categories of Moody's, including those managed or advised by the Trustee or its affiliates.

(10) The Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

(11) Shares of beneficial interest issued by a local agency investment pool joint powers authority organized pursuant to Section 6509.7 of the California Government Code, that invests in the securities and obligations authorized in Section 53601 of the California Government Code, as it may be amended. At the time of purchase, the pool shall have a minimum rating of AA-Am or the equivalent by any one Nationally Recognized Statistical Rating Organization (NRSRO).

(12) Investment agreements with a domestic or foreign bank or corporation 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 is rated at least "AA" by S&P and "Aa" by Moody's; provided that by the terms of the investment agreement:

(a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, pursuant to the investment agreement upon not more than seven days' prior notice; the Authority and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;



(c) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other general unsecured obligation of, the provider thereof;

(d) the Authority or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Authority and the Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Trustee and Authority;

(e) the investment agreement shall provide that if during its term

(1) the provider's (or its guarantor's) rating by either S&P or Moody's falls below "AA" or "Aa", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and

(2) the provider's (or its guarantor's) rating by either S&P or Moody's is withdrawn or suspended or falls below "A" or "A", respectively, the provider must at the direction of the Authority or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority or Trustee: and

(f) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(g) the investment agreement must provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate, and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. (“event of insolvency”), the provider’s obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate.

“Principal” or “Principal Amount” shall mean, as of any date of calculation, with respect to any Bond, the principal amount thereof.

“Principal Account” means the account by that name established in the Bond Fund pursuant to Section 5.03.

“Principal Payment Date” means each October 1 of each year, commencing October 1, 20\_\_.

“Project” means the acquisition, construction, rehabilitation, equipping, improvement or financing of capital improvements to, or part of, the Water Enterprise, including but not limited to \_\_\_\_\_.

“Project Costs” means all costs which are paid from moneys on deposit in the Project Fund, including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for or relating to the Project;
- (b) obligations incurred for labor and materials in connection with the Project;
- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the Project;
- (d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, and for supervising construction, as well as for the performance of all other duties required by or consequent to the Project;
- (e) any sums required to reimburse the Authority or the City for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the Project; and
- (f) all financing costs incurred in connection with the Project, including but not limited to Costs of Issuance and other costs incurred in connection herewith and the financing of the Project.

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

“Rate Stabilization Fund” means the fund by that name established pursuant to Section 5.08.

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

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

“S&P” means S&P Global Ratings, its successors and assigns.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, New York, New York 10041, Fax: (212) 855-1000 or 7320; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“Serial Bonds” means the Bonds not subject to redemption from mandatory sinking fund payments.

“Series” whenever used in this Indenture with respect to the Bonds or Additional 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 of or in lieu of or in substitution for (but not to refund) such Bonds as provided herein.

“Sinking Account” means the account by that name in the Bond Fund established pursuant to Section 5.03.

“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.

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to sections 103 and 141 through 501 inclusive, of the Code.

“Tax-Exempt Bonds” mean the South Gate Utility Authority, Water Revenue Refunding Bonds, 2019 Series A, authorized by and at any time Outstanding pursuant to the Bond Law and this Indenture.

“Taxable Bonds” mean the South Gate Utility Authority, Taxable Water Revenue Refunding Bonds, 2019 Series A-T, authorized by and at any time Outstanding pursuant to the Bond Law and this Indenture.

“Term Bonds” means the Bonds maturing on October \_\_\_\_\_.

“Transfer Amount” means, with respect to any Outstanding Bond, the aggregate Principal Amount thereof.

“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.

“Trust Office” means the corporate trust office of the Trustee at the address set forth in Section 12.07, provided, however for transfer, registration, exchange, payment and surrender of Bonds means care of the corporate trust office of the Trustee in St. Paul, Minnesota, or such other office designated by the Trustee from time to time and such office as the Trustee may designate in writing to the Authority from time to time as the place for transfer, registration, surrender, exchange or payment of the Bonds.

“Undertaking To Provide Continuing Disclosure” shall mean the Continuing Disclosure Agreement, by the Authority and U.S. Bank National Association, as Dissemination Agent, dated December 1, 2019, and described in Section 6.07 hereof.

“Water Enterprise” means the City’s water system, consisting of the property and assets described in Exhibit A to the Water Lease.

“Water Fund” means the fund by that name continued and maintained by the City on behalf of the Authority pursuant to the Water Lease.

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

“2001 CAB Bonds” means a portion of the Authority’s Subordinate Revenue Bonds, 2001 Series (Water and Sewer System Projects) consisting of outstanding capital appreciation bonds allocable to the Water Enterprise.

“2001 CAB Escrow Agreement” means the 2001 CAB Escrow Agreement, dated December \_\_, 2019, by and between the Authority and the Escrow Agent.

“2001 CAB Escrow Fund” means the 2001 CAB Escrow Fund established and held by the Escrow Agent pursuant to the 2001 CAB Escrow Agreement.

“2001 Indenture” means the Indenture of Trust, dated as of November 1, 2001, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions thereof.

“2012 Bonds Escrow Agreement” means the 2012 Bonds Escrow Agreement, dated as of December 1, 2019, by and between the Authority and the Escrow Agent.

“Escrow Fund” means, collectively, the Term Bonds Escrow Fund and the Serial Bonds Escrow Fund established and held by the Escrow Agent pursuant to the Escrow Agreement.

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

“2012 Serial Bonds” means a portion of the Authority’s Water Revenue Bonds, 2012 Series consisting of serial bonds maturing October 1, 2020 through and including October 1, 2032, currently outstanding in the aggregate principal amount of \$ \_\_\_\_\_.

“2012 Term Bonds” means a portion of the Authority’s Water Revenue Bonds, 2012 Series consisting of a term bond maturing October 1, 2037, currently outstanding in the principal amount of \$9,710,000.

### **Section 1.02. 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 hereby authorizes the issuance hereunder of the Tax-Exempt Bonds, which shall constitute special obligations of the Authority, for the purpose of providing funds to enable the Authority to currently refund the 2012 Term Bonds and finance certain capital improvements to the Water Enterprise. The Tax-Exempt Bonds are hereby designated the “South Gate Utility Authority, Water Revenue Refunding Bonds, 2019 Series A”. The aggregate principal amount of Tax-Exempt Bonds initially issued and Outstanding under this Indenture shall equal \_\_\_\_\_ Million \_\_\_\_\_ Thousand Dollars (\$[Series A principal amount]). The Authority hereby also authorizes the issuance hereunder of the Taxable Bonds, which shall constitute special obligations of the Authority, for the purpose of providing funds to enable the Authority to advance refund the 2012 Serial Bonds. The Taxable Bonds are hereby designated the “South Gate Utility Authority, Taxable Water Revenue Refunding Bonds, 2019 Series A-T”. The aggregate principal amount of Taxable Bonds initially issued and Outstanding under this Indenture shall equal

\_\_\_\_\_ Million \_\_\_\_\_ Thousand Dollars (\$[Series A-T principal amount]). 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 and premium (if any) on all the Bonds, subject to the covenants, provisions and conditions herein contained.

**Section 2.02. Terms of the Bonds.** The Bonds shall be issued in fully registered form without coupons in Authorized Denominations. The Tax-Exempt Bonds shall be issued in the aggregate principal amount of \$[Series A principal amount], and the Taxable Bonds shall be issued in the aggregate principal amount of \$[Series A-T principal amount]. The Bonds shall initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, and shall be evidenced by one Bond for each of the maturities in the principal amounts set forth below. DTC is hereby appointed depository for the Bonds, and registered ownership may not thereafter be transferred except as set forth in Section 2.04. The Bonds shall mature on October 1 in the years and in the amounts set forth below and shall bear interest on each Interest Payment Date at the rates set forth below.

Tax Exempt Bonds

Maturity Date (October 1)	Principal Amount	Interest Rate
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Taxable Bonds

Maturity Date  
(October 1)

Principal  
Amount

Interest  
Rate

Interest on the Bonds shall be payable semi-annually on April 1 and October 1 calculated based on a 360-day year of twelve (12) thirty-day months on each Interest Payment Date, commencing April 1, 2020, 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 or principal 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 prior to the applicable Record Date. Principal of any Bond and any premium upon redemption shall be paid by check or wire of the Trustee upon presentation and surrender thereof at the Trust Office. Principal of and interest and premium (if any) on the Bonds shall be payable in lawful money of the United States of America.

Each Bond shall be dated the Closing Date and 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 March 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.

**Section 2.03. Transfer of Bonds.** Subject to Section 2.05, 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 acceptable to the Trustee. Transfer of any Bond shall not be permitted by the Trustee

during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to Article IV. Whenever any Bonds or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like Transfer Amount. The Trustee may require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

**Section 2.04. Use of Securities Depository.**

(a) The Bonds shall be initially registered as provided in Section 2.02. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(i) to any successor of Cede & Co., as nominee of DTC, or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (a) hereof (a "substitute depository"); provided, that any successor of Cede & Co., as nominee of DTC or a substitute depository, shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) to any substitute depository, upon (1) the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or (2) a determination by the Authority to substitute another depository for DTC (or its successor) because DTC or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided, that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) to any person as provided below, upon (1) the resignation of DTC or its successor (or substitute depository or its successor) from its functions as depository, or (2) a determination by the Authority to remove DTC or its successor (or any substitute depository or its successor) from its functions as depository.

(iv) in the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, together with a Written Request of the Authority to the Trustee, a new Bond for each maturity shall be authenticated and delivered in the aggregate principal amount of the Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Written Request of the Authority.

(v) in the case of any transfer pursuant to clause (iii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, together with a Written Request of the Authority to the Trustee, new Bonds shall be authenticated and delivered in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested in such a Written Request of the Authority, subject to the limitations of Section 2.02 hereof; provided, the Trustee shall not be required to deliver such Bonds within a period less than sixty (60) days from the date of receipt of such a Request of the Authority. After any transfer pursuant to this subsection, the Bonds shall be transferred pursuant to Section 2.03.



(vi) the Authority and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and the Authority and the Trustee shall have no responsibility nor shall they have any liability for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Bonds, and neither the Authority nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party, including DTC or its successor (or substitute depository or its successor), except for the Owner of any Bonds.

(vii) so long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assigns, the Authority and the Trustee shall cooperate with Cede & Co., as sole registered Owner, or its registered assigns in effecting payment of the principal of and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

(viii) notwithstanding anything to the contrary contained herein, so long as the Bonds are registered as provided in this Section 2.04, payment of principal of and interest on the Bonds shall be made in accordance with the Letter of Representations delivered to DTC with respect to the Bonds.

**Section 2.05. Exchange of Bonds.** Any Bond may be exchanged at the Trust Office for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. Exchange of any Bond shall not be permitted during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to Article IV. The Trustee shall require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

**Section 2.06. Registration Books.** The Trustee will keep or cause to be kept, at the Trust Office, 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 Owners with reasonable prior notice; 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 Tax-Exempt Bonds shall be substantially in the form attached hereto as Exhibit A and hereby made a part hereof. The Taxable Bonds shall be in the form attached hereto as Exhibit B and hereby made a part hereof. The Bonds shall be signed in the name and on behalf of the Authority with the manual or facsimile signatures of its Chairperson or Vice Chairperson and attested with the manual or facsimile signature of its Secretary or any assistant duly appointed by the Board, and shall be delivered to the Trustee for authentication by it. In case any officer of the Authority who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed 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 the individual who signed the same had continued to be such officer of the Authority. Also, any Bond may be signed on behalf of the

Authority by any individual who on the actual date of the execution of such Bond shall be the proper officer although on the nominal date of such Bond such individual shall not have been such officer.

Only such of the Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit A or Exhibit B, 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 the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly 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 Trust Office 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 series, tenor, and Authorized Denomination 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 canceled by it and destroyed. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Authority and the Trustee and, if such evidence be satisfactory to them and indemnity for them satisfactory to the Authority and the Trustee 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 series and 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 receipt of the aforementioned indemnity. 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 Authority and the Trustee. 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.

**Section 2.10. CUSIP Numbers.** The Trustee and the Authority shall not be liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the

effect that the CUSIP numbers on the Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Owners and that neither the Trustee nor the Authority shall be liable for any inaccuracies in such numbers.

**Section 2.11. Limitations on Future Obligations Secured by Net Water Revenues.**

(a) No Senior Obligations. In order to protect the availability of the Net Water Revenues and the security for the Bonds and any Parity Obligations, the Authority hereby agrees that the Authority shall not, so long as any Bonds or Parity Obligations are outstanding, issue or incur any obligations that are payable out of the Net Water Revenues in whole or in part that are superior to the Bonds or Parity Obligations.

(b) Parity Obligations. Except for obligations incurred to prepay or post a security deposit for the payment of the Bonds or Parity Obligations, the Authority may issue or incur Parity Obligations, including Additional Bonds, during the term of the Bonds only if:

(i) the Authority shall be in compliance with all agreements, conditions, covenants and terms contained herein and in all Supplemental Indentures or agreements providing for the issuance of Parity Obligations required to be observed or performed by it, and a Written Certificate of the Authority to that effect shall have been filed with the Trustee (this condition shall not apply where the purpose of the proposed Parity Obligations is to cure such non-compliance);

(ii) the Parity Obligations shall have been duly authorized pursuant to the Act and all applicable laws, as evidenced by an opinion of Bond Counsel delivered to the Trustee;

(iii) subject to the provisions of Section 5.03, if the Supplemental Indenture providing for the issuance of the Additional Bonds so requires, a reserve fund is established to provide additional security for that series of Additional Bonds, the Supplemental Indenture providing for the issuance of such Additional Bonds shall require deposit of the amount necessary. Such deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such Additional Bonds and may be made from the proceeds of the sale of such Additional Bonds or from other funds and may be satisfied in whole or in part through the provision of a qualified reserve fund credit instrument.

(iv) the Net Water Revenues for the last completed Fiscal Year or any 12 consecutive months within the last 18 months preceding the date of execution of such Parity Obligations, as shown by a Written Certificate of the Authority on file with the Trustee, plus an allowance for increased Net Water Revenues arising from any increase in the rates, fees and charges of the Water Enterprise which was duly adopted by the City Council on behalf of the Authority prior to the date of the execution of such Parity Obligations but which, during all or any part of such 12 month period, was not in effect, in an amount equal to the amount by which the Net Water Revenues would have been increased if such increase in rates, fees and charges had been in effect during the whole of such 12 month period, as shown by a Written Certificate of the Authority on file with the Trustee, shall have produced a sum equal to at least 120 percent of the Maximum Annual Debt Service as calculated after the execution of such Parity Obligations; provided, that in the event that all or a portion of such Parity Obligations are to be

issued for the purpose of refunding and retiring any Parity Debt then outstanding, interest and principal payments on the Parity Debt to be so refunded and retired from the proceeds of such Parity Obligations being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service; provided further, that the Authority may at any time issue Parity Obligations without compliance with the foregoing conditions if, as stated in a Written Certificate of the Authority filed with the Trustee, the Annual Debt Service for each Fiscal Year during which such Parity Debt is outstanding will not be increased by reason of the issuance of such Parity Obligation; and provided further, an adjustment shall be made in the amount of Net Water Revenues as provided in Section 5.08 hereof; provided further that for purposes of the calculation in this section, any amounts reimbursed to the Authority by the United States of America pursuant to a future program similar to the previously enacted Section 54AA of the Code shall not be included in Gross Water Revenues.

(c) Subordinate Obligations. In addition to payments under the Lease Agreement, additional obligations may be issued on a basis subordinate to the Bonds to the extent required.

### ARTICLE III.

#### ISSUANCE OF BONDS AND APPLICATION OF PROCEEDS

**Section 3.01. Issuance of the Bonds.** At any time after the execution of this Indenture, the Authority may execute and the Trustee shall authenticate and, upon the Written Request of the Authority, deliver Tax-Exempt Bonds in the aggregate principal amount of \_\_\_\_\_ (\$[Series A principal amount]) and deliver Taxable Bonds in the aggregate principal amount of \_\_\_\_\_ (\$[Series A-T principal amount]).

#### **Section 3.02. Application of the Proceeds of the Bonds.**

(a) The proceeds received from the sale of the Tax-Exempt Bonds (\$ \_\_\_\_\_, including net original issue premium and excluding underwriter's discount), along with other available moneys in the amount of \$ \_\_\_\_\_ from the 2012 Bonds, shall be deposited in trust with the Trustee, who shall forthwith set aside such proceeds as follows:

(i) The Trustee shall deposit the amount of \$ \_\_\_\_\_ in the Series A Account of the Costs of Issuance Fund; and

(ii) The Trustee shall transfer to the Escrow Agent for deposit in the Term Bonds Escrow Fund held under the Escrow Agreement the amount of \$ \_\_\_\_\_.

(b) The proceeds received from the sale of the Taxable Bonds (\$ \_\_\_\_\_, including net original issue premium and excluding underwriter's discount), along with other available moneys in the amount of \$ \_\_\_\_\_ from the 2012 Bonds and \$ \_\_\_\_\_ from a contribution of available funds, shall be deposited in trust with the Trustee, who shall forthwith set aside such proceeds as follows:

(i) The Trustee shall deposit the amount of \$ \_\_\_\_\_ in the Series A-T Account of the Costs of Issuance Fund; and

(ii) The Trustee shall transfer to the Escrow Agent for deposit in the Term Bonds Escrow Fund held under the Escrow Agreement the amount of \$ \_\_\_\_\_.

(c) The Trustee may, in its discretion, establish additional accounts in its books and records to facilitate the transfer of moneys.

**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," and within such fund a "Series A Account" and a "Series A-T Account." The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee has no obligation at any time to monitor the applications of any moneys paid pursuant to a Written Requisition of the Authority. Ninety days after the Closing Date, or upon the earlier Written Request of the Authority, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Project Fund, or if all Project Costs have been paid as evidenced by a Written Certificate of the Authority, to the Interest Account of the Bond Fund, and the Costs of Issuance Fund shall be closed.

**Section 3.04. Validity of Bonds.** 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.

#### ARTICLE IV.

#### REDEMPTION OF BONDS

##### Section 4.01. Terms of Redemption.

(a) Mandatory Sinking Account Redemption. The Tax-Exempt Term Bonds maturing on October 1, \_\_\_ are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on October 1 in each year, commencing October 1, 20\_\_\_, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Tax-Exempt Term Bonds have been redeemed pursuant to subsections (b) or (c) below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the Tax-Exempt Term Bonds so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Schedule of Sinking Account Payments for Tax-Exempt Term Bonds  
Maturing October 1, \_\_\_\_\_

Redemption Date (October 1)	Principal Amount
--------------------------------	---------------------

†Maturity.

In lieu of such redemption, the Trustee may apply amounts in the Sinking Account to the purchase of Tax-Exempt Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Tax-Exempt Term Bonds, as set forth in a Written Request of the Authority. The par amount of Tax-Exempt Term Bonds so purchased by the Authority in any twelve-month period immediately preceding any mandatory Sinking Account payment date in the table above will be credited towards and will reduce the principal amount of Tax-Exempt Term Bonds required to be redeemed on the succeeding Principal Payment Date.

(b) Optional Redemption.

(i) *Optional Redemption of Tax-Exempt Bonds.* The Tax-Exempt Bonds maturing on or after October 1, 2028, shall be subject to optional redemption, as a whole or in part on any date prior to the maturity thereof, at the option of the Authority, on or after October 1, 2027, from funds derived by the Authority from any source, at the redemption price equal to the principal amount of the Tax-Exempt Bonds to be redeemed, together with accrued interest, without premium.

(ii) *Optional Redemption of Taxable Bonds.* The Taxable Bonds maturing on or after October 1, 2030, shall be subject to optional redemption, as a whole or in part on any date prior to the maturity thereof, at the option of the Authority, on or after October 1, 2029, from funds derived by the Authority from any source, at the redemption price equal to the principal amount of the Taxable Bonds to be redeemed, together with accrued interest, without premium.

(c) Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Bonds shall also be subject to redemption as a whole or in part on any date, pro rata by maturity and by lot within a maturity (in a manner determined by the Trustee) from moneys deposited in the Redemption Fund to the extent insurance proceeds received with respect to the Water Enterprise are not used to repair, rebuild or replace the Water Enterprise pursuant to Section 6.15 of this Indenture, or to the extent of condemnation proceeds received with respect to the Water Enterprise and elected by the Authority to be used for such purpose pursuant to Section 6.17 of this Indenture, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the date fixed for redemption.

**Section 4.02. Selection of Bonds for Redemption.** Whenever provision is made in Section 4.01 of this Indenture for the redemption of less than all of the Bonds of a series, the Trustee shall select the Bonds of a series to be redeemed from all Bonds of such series or such given portion thereof not previously called for redemption, pro rata by maturity or, at the election

of the Authority set forth in a Written Request of the Authority, filed with the Trustee, from such maturities as the Authority shall determine, and by lot within a maturity in any manner which the Trustee, in its sole discretion, shall deem appropriate and fair. Any such determination shall be deemed conclusive. 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 Authority shall give the Trustee notice of its determination to redeem any Bonds in accordance with Section 4.01(b) or (c) not less than 60 days and no more than 90 days prior to the date fixed for redemption. Notice of redemption shall be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, and by first class mail, facsimile or electronic mails, to the Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity or series) are to be redeemed, the CUSIP numbers and (if less than all Bonds of a maturity are redeemed) Bond numbers of the Bonds to be redeemed, the maturity or maturities of the Bonds to be redeemed and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

If at the time of mailing of any notice of optional redemption there shall not have been deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice shall state that it is subject to the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date and will be of no effect unless such moneys are so deposited.

The Authority shall have the right to rescind any notice of optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of such redemption shall be cancelled 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 hereunder. 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. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

In addition to the foregoing notice, further notice shall be given by the Trustee in said form by first-class mail to any Owner whose Bond has been called for redemption but who has failed to tender his Bond for payment by the date which is sixty days after the redemption date, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption.

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, series and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

**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 such series 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 canceled by the Trustee upon surrender thereof and destroyed.

## ARTICLE V.

### REVENUES; FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

#### Section 5.01. Pledge and Assignment; Transfers to Bond Fund.

(a) Pledge of Net Water Revenues. All of the Net Water Revenues and any other amounts (including the proceeds of the sale of the Bonds) held in any of the funds or accounts under this Indenture, are hereby irrevocably pledged, charged and assigned to the punctual payment of the principal of and interest and premium, if any, on the Bonds, and except as otherwise provided herein the Net Water Revenues and such other funds shall not be used for any other purpose so long as any of the Bonds remain Outstanding. This pledge, together with the pledge created by all Parity Obligations, and subject to application of amounts on deposit therein as permitted herein, shall constitute a first lien on the Net Water Revenues, subject to application of amounts on deposit therein as permitted herein, the Water Fund and other funds and accounts created hereunder for the payment of the principal of and interest and premium, if any, on the Bonds and any Parity Obligations in accordance with the terms of this Indenture. All Net Water 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 be paid by the Authority to the Trustee pursuant hereto.

(b) Deposits Into Water Fund; Transfers to Bond Fund.

The Authority shall cause the City, and the City has agreed and covenanted pursuant to the Water Lease, to deposit all of the Gross Water Revenues immediately upon receipt in the



Water Fund, which fund is hereby established and which shall be maintained and held in trust by the Authority as a separate fund. The Authority shall, from the moneys in the Water Fund, pay all Direct Water Costs as they become due and payable. On or before the tenth (10th) Business Day preceding each Interest Payment Date, provided no Event of Default as described in Section 7.01 hereof has occurred and is continuing, the Authority shall disburse the following amounts from the Water Fund, in the following order of priority:

- (i) to the Trustee for deposit into the Bond Fund the amount equal to (a) the aggregate amount of interest coming due and payable on the Bonds on the next succeeding Interest Payment Date, plus (ii) one-half ( $\frac{1}{2}$ ) of the aggregate amount of the principal coming due and payable on the next succeeding Principal Payment Date and one-half ( $\frac{1}{2}$ ) of the aggregate amount of the mandatory Sinking Account payments required to be paid for Outstanding Tax-Exempt Term Bonds on the next succeeding Principal Payment Date; plus the payment of any Parity Obligation Payments for outstanding Parity Obligations;
- (ii) amounts required to replenish any reserve fund for outstanding Parity Obligations to its reserve requirement, if any;
- (iii) for payment to the City of unpaid Allocated Water Costs;
- (iv) for replenishment, if necessary, to the Water Fund of amounts reasonably required to be set aside in contingency reserves for the Water Enterprise, consisting of at least six months of operating and maintenance expenses for the Water Enterprise as measured the latest fiscal year's audited financial statements.

Amounts remaining in the Water Fund immediately after making the transfers required to be made pursuant to this Section 5.01(b) shall be released to the Authority free and clear of the lien of the Indenture, to be used by the Authority for any lawful purpose including but not limited to making Lease Payments to the City pursuant to the Water Lease, deposits to the Rate Stabilization Fund, the payment of any subordinate obligations or any unsecured obligations, the costs for additional improvements, extensions, replacements and betterments to the Water Enterprise, and the prepayment of any obligations of the Authority relating to the Water Enterprise, and to the extent permitted by the Water Lease, payment of in lieu franchise fees and contributions to the City's General Fund for street improvements related to the Water Enterprise.

**Section 5.02. Covenant Regarding Net Water Revenues.** The Authority shall cause the City to manage, conserve and apply the Net Water Revenues on deposit in the Water Fund in such a manner that all deposits required to be made pursuant to the preceding Section 5.01 will be made at the times and in the amounts so required.

**Section 5.03. Creation of Bond Fund and Accounts Therein; Allocation of Net Water Revenues.** There are hereby created the following funds and accounts to be held and administered by the Trustee pursuant to this Indenture: the Bond Fund, and, within the Bond Fund, the Interest Account, the Principal Account and the Sinking Account, and separate subaccounts therein for the Tax-Exempt and Taxable Bonds. On or about the fifth (5) Business Day preceding each date on which interest on the Bonds becomes due and payable, the Trustee

shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Net Water Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

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

(b) The Trustee shall deposit in the Principal Account, one-half (½) of the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds plus, deposit to the Sinking Account, one-half (½) of the aggregate amount of the mandatory sinking account payments required to be paid for Outstanding Term Bonds on the next succeeding Principal Payment Date, until the balance in said accounts are equal to said respective aggregate amounts of such principal and mandatory sinking account payments.

(c) The Trustee shall transfer any remaining amounts in the Bond Fund to the Authority for any lawful use with respect to the Water Enterprise.

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

**Section 5.05. Application of Principal Account.** All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

**Section 5.06. Application of Sinking Account.** All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing (in lieu of redemption) Tax-Exempt Term Bonds pursuant to Section 4.01(a).

**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 the Bonds to be redeemed pursuant to Sections 4.01(b) and 4.01(c); provided, however, that at any time prior to selection for redemption of any such Bonds, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

**Section 5.08. Rate Stabilization Fund.** The Authority may establish a special fund known as the "Rate Stabilization Fund" which shall be held by the Authority. The Authority may, during or within 210 days after a Fiscal Year, deposit surplus Net Water Revenues transferred from the Water Fund attributable to such Fiscal Year (on the basis of Generally Accepted Accounting Principles) into the Rate Stabilization Fund. The City may at any time

withdraw moneys from the Rate Stabilization Fund and deposit such amounts into the Water Fund. Notwithstanding anything to the contrary provided herein, Net Water Revenues deposited into the Rate Stabilization Fund shall not be taken into account as Net Water Revenues for purposes of the calculations in Sections 2.11 and 5.09(b) in the Fiscal Year to which such deposit is attributable, and amounts withdrawn from the Rate Stabilization Fund and deposited into the Water Fund, during or within 210 days after a Fiscal Year, may be taken into account as Gross Water Revenues for purposes of the calculations required under Sections 2.11 and 5.09(b) in such Fiscal Year; provided that, for purposes of the calculation required under Section 5.09(b), the amount of Net Water Revenues before any credits for withdrawals from the Rate Stabilization Fund may not be less than 100% of Maximum Annual Debt Service; provided further that the foregoing provisions shall be subject to the rate stabilization fund provisions of any Parity Debt outstanding as of the date hereof. The amounts in the Rate Stabilization Fund shall be invested in Permitted Investments.

**Section 5.09. Rates and Charges.** The Authority makes the covenants set forth in this Section 5.09 with respect to the Water Enterprise as a whole and the Gross Water Revenues and the Net Water Revenues generated by the Water Enterprise.

(a) Covenant Regarding Gross Water Revenues. The Authority shall fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise as a whole for the services and improvements furnished by the Water Enterprise during each Fiscal Year that are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Water Revenues that are sufficient to pay the following amounts in the following order of priority:

(i) Direct Water Costs estimated by the Authority to become due and payable in such Fiscal Year;

(ii) Debt Service payments on the Bonds and any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the Bonds or any Parity Obligation or from any other source of legally available funds of the Authority that have been deposited with the Trustee or the trustee of any Parity Obligation for such purpose prior to the commencement of such Fiscal Year;

(iii) amount, if any, required to restore the balance in any reserve account to the full amount of the applicable reserve requirement for any Parity Obligation;

(iv) all payments required for compliance with the terms hereof and the terms of any Supplemental Indenture.

(v) amount required to pay Allocated Water Costs; and

(vi) other payments required to meet any other obligations of the Authority that are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Water Revenues during such Fiscal Year.

(b) Covenant Regarding Net Water Revenues. In addition, the Authority shall fix, prescribe, revise and collect, or cause to be fixed, prescribed, revised and collected, rates,

fees and charges for the services and improvements furnished by the Water Enterprise during each Fiscal Year which are sufficient to yield Net Water Revenues for the Water Enterprise, which are at least equal to one hundred twenty (120%) of the total Debt Service payments on the Bonds and any Parity Obligation coming due and payable in such Fiscal Year; provided an adjustment shall be made to the amount of Gross Water Revenues as provided in Section 5.08 hereof.

For purposes of the calculation in this Section 5.09(b), any amounts reimbursed to the Authority by the United States of America pursuant to a future program similar to the previously enacted Section 54AA of the Code shall not be included in Gross Water Revenues.

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

**Section 5.10. Budget and Appropriation of Debt Service Payments.** So long as any Bonds remain Outstanding, the Authority covenants that it shall adopt and make all necessary budgets and appropriations of the Debt Service payments from Net Water Revenues. In the event any Debt Service payment requires the adoption by the Authority of any supplemental budget or appropriation, the Authority shall promptly adopt the same. The covenants on the part of the Authority contained in this Section 5.10 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 Authority 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 Authority to carry out and perform the covenants and agreements in this Section 5.10.

**Section 5.11. Special Obligation of the Authority; Obligations Absolute.** The Authority's obligation to pay the Debt Service payments and any other amounts coming due and payable hereunder shall be a special obligation of the Authority limited solely to the Net Water Revenues. Under no circumstances shall the Authority be required to advance moneys derived from any source of income other than the Net Water Revenues and other sources specifically identified herein for the payment of the Debt Service payments, nor shall any other funds or property of the Authority be liable for the payment of the Debt Service payments and any other amounts coming due and payable hereunder.

The obligations of the Authority to make the Debt Service payments from the Net Water 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 Authority or the Trustee of any obligation with respect to the Water Enterprise, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the Authority by the Trustee. Until such time as all of the Debt Service payments and all other amounts coming due and payable hereunder shall have been fully paid or prepaid, the Authority (a) will not suspend or discontinue payment of any Debt Service payments or such other amounts, and (b) will perform and observe all other agreements contained in this Indenture, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or

constructive eviction, destruction of or damage to the Water Enterprise, sale of the Water Enterprise, the taking by eminent domain of title to or temporary use of any component of the Water Enterprise, commercial frustration of purpose, any change in the tax law or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with this Indenture.

**Section 5.12. 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 Written Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments described in clause (9) of the definition thereof. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

Moneys in the funds and accounts held by the Trustee shall be invested in Permitted Investments maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of Additional Bonds: (i) all interest, profits and other income received from the investment of moneys in the Interest Account representing accrued interest or capitalized interest shall be retained in such Interest Account; (ii) all interest, profits and other income received from the investment of moneys in a Costs of Issuance Fund shall be retained in such Costs of Issuance Fund until such time as such Costs of Issuance Fund is closed, and any earnings received on a Costs of Issuance Fund subsequent to the closure of such Costs of Issuance Fund shall be transferred to the Bond Fund; and (iii) all interest, profits and other income received from the investment of moneys in any other fund or account shall be transferred to the [Water Fund]. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Permitted Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Permitted Investment shall be credited to the fund or account from which such accrued interest was paid.

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. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section 5.12.

The Trustee may sell at the best price reasonably obtainable, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any such Permitted Investment.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority will not receive such

confirmations to the extent permitted by law. The Trustee will provide to the Authority periodic cash transaction statements that shall include detailed information for all investment transactions made by the Trustee under this Indenture.

The Trustee may make any investments authorized hereunder through the Trustee's 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.

**Section 5.13. Valuation of Investments.** For the purpose of determining the amount in any fund or account, the value of Permitted Investments credited to such fund or account shall be valued by the Trustee annually on or before October 2 of each year at the market value thereof (excluding any accrued interest). The Trustee may utilize computer pricing services as are available to it in making such valuations. Any deficiency in a fund or account resulting from a decline in market value shall be restored by the Authority no later than the next scheduled valuation date.

## ARTICLE VI.

### PARTICULAR COVENANTS

**Section 6.01. Punctual Payment; Compliance with Documents.** The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of Net Water Revenues and other assets pledged for such payment as provided in this Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of 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 Net Water Revenues and other assets pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created 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 reserve 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 Net Water 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, use reasonable efforts to defend, preserve and protect said pledge and assignment of Net Water Revenues and other assets and all the rights of the Bond Owners under this Indenture against all claims and demands of all persons whomsoever.

**Section 6.05. Accounting Records and Financial Statements.** The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds and all funds and accounts established pursuant to this Indenture. The Trustee shall, upon the written request of holder of any of the Outstanding Bonds, provide a copy of the monthly statements relating to the Bonds. Such books of record and account shall be available for inspection by the Authority during business hours and under reasonable circumstances.

The Authority shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with industry standards in which complete and accurate entries shall be made of all transactions made by it relating to Net Water Revenues and all funds and accounts established pursuant to this Indenture. The Authority shall cause to be performed a component audit of the Water Enterprise within 180 days of the end of each Fiscal Year.

**Section 6.06. No Senior Obligations.** The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable in whole or in part out of the Net Water Revenues on a senior basis to the Parity Debt.

**Section 6.07. Continuing Disclosure.** The Authority hereby covenants and agrees that it will comply with and carry out all of the provisions of its Undertaking To Provide Continuing Disclosure with respect to the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof. Notwithstanding any other provision of this Indenture, failure of the Authority to comply with such Undertaking to Provide Continuing Disclosure shall not be considered an Event of Default; however, any Bondholder may take such actions, as provided in such Undertaking To Provide Continuing Disclosure, as may be necessary and appropriate to cause the Authority to comply with its obligations under such Undertaking To Provide Continuing Disclosure.

**Section 6.08. Tax Covenants.**

(a) General. The Authority hereby covenants with the owners of the Tax-Exempt Bonds that, notwithstanding any other provisions of this Indenture, it shall not take any action, or fail to take action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Tax-Exempt Bonds under Section 103 of the Code. Neither the Authority nor the City, directly or indirectly, shall use or permit the use of proceeds of the Tax-Exempt Bonds or any of the property financed or refinanced with proceeds

of the Tax-Exempt Bonds, or any portion thereof, by any person other than a governmental person (as such term is used in Section 141 of the Code and applicable Treasury Regulations ), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Bonds.

(b) Use of Proceeds. Neither the Authority nor the City shall take any action, or fail to take action, if any such action or failure to take action would cause the Tax-Exempt Bonds to be “private activity bonds” within the meaning of Section 141 of the Code and applicable Treasury Regulations, and in furtherance thereof, shall not make any use of the proceeds of the Tax-Exempt Bonds or any of the property financed or refinanced with proceeds of the Tax-Exempt Bonds, or any portion thereof, that would cause the Tax-Exempt Bonds to be “private activity bonds” within the meaning of Section 141 of the Code. So long as any Tax-Exempt Bonds are outstanding, the Authority and the City, with respect to such proceeds and property, will comply with the requirements of the Code and the Treasury Regulations, to the extent such requirements are, at the time, applicable and in effect. The City shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code and the continued qualification of the Tax-Exempt Bonds as “governmental bonds.”

(c) Arbitrage. Neither the Authority nor the City shall directly or indirectly use or permit the use of any proceeds of any Tax-Exempt Bonds, or of any property financed or refinanced thereby, or of other funds of the Authority or the City, that would cause the Tax-Exempt Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and applicable Treasury Regulations, and shall not otherwise take any action, or fail to take action, if such action or failure to take action would cause the Tax-Exempt Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and applicable Treasury Regulations. The Authority and the City shall comply with all requirements of Section 148 of the Code and the Treasury Regulations to the extent such requirements are, at the time, in effect and applicable to the Tax-Exempt Bonds.

(d) Federal Guarantee. Neither the Authority nor the City shall make any use of the proceeds of the Tax-Exempt Bonds, or of any other funds of the Authority or the City, that would cause the Tax-Exempt Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code, and shall not otherwise take any action, or fail to take action, when such action or failure to take action would cause the Tax-Exempt Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(e) Compliance with Tax Certificate. In furtherance of the foregoing tax covenants of this Section 6.07, the Authority covenants that it will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the Tax-Exempt Bonds.

(f) Rebate Requirement. 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 investment earnings, if any, to the federal government, to the extent that such section is applicable to the Tax-Exempt Bonds. The Treasurer of the Authority shall take note of any investment of monies hereunder in excess of the yield on the Tax-Exempt Bonds, and shall take such actions as are necessary to ensure compliance with this Section 6.08(f). If necessary to



satisfy its obligations under this Section 6.08(f), the Authority shall pay from Surplus Revenues the amount so needed.

**Section 6.09. 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 6.10. Protection of Security and Rights of Owners.** The Authority will preserve and protect the security of the Bonds and the Owners. From and after the date of issuance of any Bonds, such Bonds shall be incontestable by the Authority.

**Section 6.11. Further Assurances.** The Authority will adopt, 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 Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Indenture.

**Section 6.12. Maintenance, Utilities, Taxes and Assessments.** So long as any Bonds remain Outstanding, all improvement, repair and maintenance of the Water Enterprise shall be the responsibility of the Authority, and the Authority shall pay for or otherwise arrange for the payment of all utility services supplied to the Water Enterprise, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Water Enterprise resulting from ordinary wear and tear.

The Authority shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority affecting the Water Enterprise or its interest or estate 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 Authority shall be obligated to pay only such installments as are required to be paid so long as any Bonds remain Outstanding as and when the same become due.

The Authority may, at the Authority'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 Trustee shall notify the Authority that, in its opinion, by nonpayment of any such items, the interest of the Owners of the Bonds hereunder will be materially adversely affected, in which event the Authority shall promptly pay such taxes, assessments or charges or provide the Trustee with full security against any loss which may result from nonpayment, in form satisfactory to the Trustee.

**Section 6.13. Operation of Water Enterprise.** The Authority covenants and agrees to operate the Water Enterprise in an efficient and economical manner and to operate, maintain and preserve the Water Enterprise in good repair and working order. The Authority covenants that, in order to fully preserve and protect the priority and security of the Bonds, the Authority shall pay from the Gross Water Revenues, and discharge all lawful claims for labor, materials and

supplies furnished for or in connection with the Water Enterprise which, if unpaid, may become a lien or charge upon the Gross Water Revenues prior or superior to the lien granted hereunder, or which may otherwise impair the ability of the Authority to pay the Debt Service payments in accordance herewith.

**Section 6.14. Public Liability and Property Damage Insurance.** The Authority shall maintain or cause to be maintained, so long as any Bonds remain Outstanding, 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 City, and their respective members, officers, agents, assignees 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 Water Enterprise. 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 Authority or the City, and may be maintained in whole or in part in the form of self-insurance by the Authority or the City, in the form of the participation by the Authority or 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 6.15. Casualty Insurance.** The Authority shall procure and maintain, or cause to be procured and maintained, so long as any Bonds remain Outstanding, 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 Water Enterprise, 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 Authority and may be maintained in whole or in part in the form of self-insurance by the Authority, subject to the provisions of Section 6.16, or in the form of the participation by the Authority 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 Water Enterprise shall be used to repair, rebuild or replace such damaged or destroyed portion of the Water Enterprise, and to the extent not so applied or to the extent the Authority determines it is not economically feasible or in the best interests of the Authority to so repair, rebuild or replace such damaged or destroyed portion of the Water Enterprise, shall be applied to redeem the Bonds.

**Section 6.16. Insurance Net Proceeds; Form of Policies.** The Authority shall pay or cause to be paid when due the premiums for all insurance policies required by the Water Lease. The Authority shall annually on or before December 1 deliver to the Trustee a certificate to the effect that the Authority has complied with the requirements of Sections 6.14 and 6.15 hereof. In the event that any insurance required pursuant to Sections 6.14 or 6.15 shall be provided in the form of self-insurance, the Authority 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 Authority maintains sufficient reserves with respect thereto. In the event that any such insurance shall be

provided in the form of self-insurance by the Authority, the Authority shall not be obligated to make any payment with respect to any insured event except from Gross Water Revenues or from such reserves.

**Section 6.17. Eminent Domain.** Any amounts received as awards as a result of the taking of all or any part of the Water Enterprise by the lawful exercise of eminent domain, at the election of the Authority (evidenced by a Written Certificate of the Authority filed with the Trustee and the Authority) shall either (a) be used for the lease, acquisition or construction of improvements and extension of the Water Enterprise, or (b) be applied to redeem the Bonds.

**Section 6.18. Restriction on Sale of Water Enterprise.** The Authority covenants that, so long as any Bonds remain Outstanding, the Authority will not sell, lease, encumber or otherwise dispose of the Water Enterprise, a substantial portion of the Water Enterprise, or the Authority's rights to receive Gross Water Revenues, or suffer the Water Enterprise, a substantial portion of the Water Enterprise, or the Authority's rights to receive Gross Water Revenues to be sold, leased, encumbered or otherwise disposed of, except to another public entity, unless the proceeds of such sale, lease, encumbrance or other disposal shall be adequate, and shall be used, to discharge this Indenture as provided in Article X hereof. For purposes of this covenant, a "substantial portion" of the Water Enterprise shall consist of more than five percent (5%) of the book value of the Water Enterprise. Nothing in this covenant shall be construed to restrict the sale by the Authority of less than a substantial portion of the Water Enterprise, provided that such sale is determined by the Authority to be necessary or desirable for the improvement, expansion or repair of the Water Enterprise, and the proceeds of such sale are used either to fund such improvement, expansion or repair of the Water Enterprise, or to redeem a portion of the Bonds pursuant to Section 4.01(b) hereof.

## ARTICLE VII.

### EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

**Section 7.01. Events of Default and Acceleration of Maturities.** The following events shall be Events of Default hereunder:

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

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

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City and the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice (other than a default in the payment of any fees and expenses owing to the Trustee) 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 filing by the Authority of a petition or answer seeking reorganization or arrangement under the Federal bankruptcy laws or any other applicable law of the United States of America, or if a federal or state court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the Federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any federal or state court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Upon the occurrence and during the continuance of any Event of Default the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding, the Trustee shall, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the Bonds having come due prior to such declaration, with interest on such overdue principal and interest calculated at the net effective rate of interest per annum then borne by the Outstanding Bonds, and the reasonable fees and expenses of the Trustee, together with interest thereon at the prime rate of the Trustee then in effect, and any and all other defaults known to the Trustee (other than in the payment of the principal of and interest on the Bonds having come 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 Trustee or the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, by written notice to the Authority and to the Trustee, on behalf of the Owners of all of the Outstanding Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

**Section 7.02. Application of Funds Upon Acceleration.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Indenture and all other funds then held by the Trustee hereunder shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of fees, charges and expenses of the Trustee (including fees and disbursements of its counsel and financial consultants) incurred in and about the performance of its powers and duties under this Indenture; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds,

and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

**Section 7.03. Other Remedies; Rights of Bond Owners.** Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in Section 8.01, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to this Indenture.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of a majority in aggregate principal amount of Outstanding Bonds and indemnified as provided in Section 8.06, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article VII, as the Trustee, being advised by counsel, shall deem in the interests of the Bond Owners.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners hereunder or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon 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 acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

**Section 7.04. Power of Trustee to Control Proceeding.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact. Trustee's counsel shall not be deemed under any

circumstances to be counsel to the Owners. Communications between the Trustee and Trustee's counsel shall be deemed confidential and privileged entitled to all protection under the law.

**Section 7.05. Appointment of Receivers.** Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Gross Water Revenues and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

**Section 7.06. Non-Waiver.** Nothing in this Article VII or in any other provision of this Indenture, or in the Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as herein provided, out of the Net Water Revenues and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds 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 of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Bond Law or by this Article VII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

**Section 7.07. Rights and Remedies of Bond Owners.** No Owner of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity acceptable to the Trustee in its sole discretion against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted 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) the Trustee has not received any inconsistent direction during such 60-day period from the Owners of a majority in aggregate principal amount of the Outstanding Bonds.

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; 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 enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as herein provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

**Section 7.08. Termination of Proceedings.** In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the Authority, the Trustee and the Bond Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

## **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 curing or 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. 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 corporate trustee would exercise or use under the circumstances.

(b) The Authority may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and the Authority shall remove the Trustee if at any time requested to do so 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 thereupon shall appoint a successor Trustee by an instrument in writing. Any such removal shall be made upon at least thirty (30) days' prior written notice to the Trustee.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and by giving the Bond Owners notice of such resignation by mail at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority shall promptly appoint 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 pursuant to the terms hereof. 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 Authority shall petition any federal or state court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture, shall signify its acceptance of such appointment by executions 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 Written 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 Bond Owners at the respective 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 District 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 agency, 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 agency 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. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section 8.01.

**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 not and does not assume responsibility or liability for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture or the Bonds, nor shall the Trustee incur any responsibility or liability 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 and expressly disclaims any obligation to make any such undertaking. The Trustee shall only be responsible for the 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 gross negligence. 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 Bond Owners, 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 for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) 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.

(d) 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.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder, or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder, unless and until the trust administrator of this Indenture shall have actual knowledge thereof, or shall have received written notice thereof at the 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 of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it, nor shall have any duty or obligation to monitor continuing notice filing requirements, if any.

(f) 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, if it is not assured to its satisfaction that the repayment of such funds or adequate indemnity against such risk or liability is not

reasonably assured to it; provided, however, that if the Trustee shall advance any such funds at any time the Trustee shall be entitled to immediate reimbursement at the highest rate permitted by law.

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents or attorneys or receivers and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, receiver or attorney appointed in good faith by it hereunder.

(h) 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 acceptable to the Trustee 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; and provided further that in the event the Trustee shall act, the scope of its obligations and duties thereunder shall not thereby be deemed, under any circumstances, to be expanded.

(i) 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.

(j) 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 of the Water Enterprise. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from this Indenture for the existence, furnishing or use of the Water Enterprise.

(k) The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or other disclosure material prepared or distributed with respect to the Bonds.

**Section 8.04. Right to Rely on Documents.** The Trustee shall be protected in acting upon any notice, direction, requisition, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by them to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with its counsel with regard to legal questions, and the opinion of such counsel or counsel to the Authority shall be full and complete authorization and protection 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 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 Written

Certificate, Written Request or Written Requisition of the Authority and such Written Certificate, Written Request or Written 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 Written Certificate, Written Request or Written 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.

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

**Section 8.06. Compensation and Indemnification.** Absent any fee agreement between the Trustee and the Authority to the contrary, the Authority shall pay to the Trustee (solely from Gross Water Revenues) 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 its powers and duties under this Indenture. In the event the Trustee advances its own funds for the payment of the Bonds or for the protection or benefit of the Owners of the Bonds, the Authority shall promptly reimburse the Trustee for such advances with interest at the maximum rate allowed by law.

The Authority shall indemnify, defend and hold harmless the Trustee and its officers, directors, agents and employees, against any loss, liability or expense incurred without gross negligence or willful misconduct on its part, arising out of or in connection with 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. As security for the performance of the obligations of the Authority under this Section 8.06, 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 of or interest on particular Bonds. The rights of the Trustee and the obligations of the Authority under this Section 8.06 shall survive the resignation or removal of the Trustee or the discharge of the Bonds and this Indenture.

## **ARTICLE IX.**

### **MODIFICATION OR AMENDMENT OF THIS 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 hereto, 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, exclusive of Bonds disqualified as provided in this Indenture, 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 Net Water 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 Net Water Revenues and other assets (except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding, or (iii) modify any of the rights or obligations of the Trustee hereunder without its written consent thereto. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

(b) 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, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

- (i) to issue Additional Bonds in accordance with Section 2.11 hereof;
- (ii) 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 limit or surrender any right or power herein reserved to or conferred upon the Authority;
- (iii) 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, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel;
- (iv) 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;
- (v) modify, amend or supplement this Indenture in such manner as to cause interest on the Tax-Exempt Bonds to remain excludable from gross income under the Code; or

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

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

**Section 9.05. Notice to Rating Agencies.** For all purposes of this Indenture: any rating agency rating the Bonds must receive notice from the Authority of each amendment and a copy thereof at least 15 days in advance of its execution or adoption.

## ARTICLE X.

### DEFEASANCE

**Section 10.01. Discharge of Indenture.** Any portion or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority with respect to such Bonds:

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

(b) by depositing with the Trustee, in trust, at or before maturity, money or non-callable Federal Securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Bonds; or

(c) by delivering such Bonds to the Trustee for cancellation.

If the Authority shall also pay or cause to be paid all other sums payable hereunder, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge such Bonds and this Indenture with respect to such Bonds), and notwithstanding that any of such Bonds shall not have been surrendered for payment; this Indenture and the pledge of Net Water Revenues and other assets made under this Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under this Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the Authority, the Trustee shall be authorized to take such actions and execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction. In the event all Outstanding Bonds are paid as provided in this Section 10.01, the Trustee shall pay over, transfer, assign or deliver to the Authority all moneys or securities or other property held by it pursuant to this Indenture which are not required for the payment or redemption of any Bonds not theretofore surrendered for such payment or redemption and after payment of amounts due to the Trustee under the Indenture.

**Section 10.02. Discharge of Pledge of Net Water Revenues.** Upon the deposit with the Trustee, in trust, at or before maturity, of money or non-callable Federal 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 the pledge of Net Water Revenues 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 noncallable Federal Securities in the necessary amount to pay or redeem any Bonds, the money or non-callable Federal Securities so to be deposited or held may include money or non-callable Federal Securities held by the Trustee in the funds and accounts established pursuant to this Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the

case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in 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 and all unpaid interest thereon to the redemption date; or

(b) non-callable Federal Securities, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in 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 Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with this Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above).

In the event of an advance refunding to pay or redeem any Bonds, the Authority shall cause a verification report to be delivered of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the Indenture, if no separate escrow agreement is utilized), the terms of the escrow agreement or this Indenture, if applicable, shall be controlling.

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

## ARTICLE XI.

### MISCELLANEOUS

#### **Section 11.01. Liability of Authority Limited to Net Water Revenues.**

Notwithstanding anything in this Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Bonds or Net Water Revenues and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal of 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 that may be made available to it for such purposes.

**Section 11.02. Limitation of Rights to Parties, Bond Owners.** 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 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 and the Owners of the Bonds.

**Section 11.03. 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. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations hereunder.

**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.** Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds as may be allowed by law, and, upon written request of the Authority, deliver a certificate of such destruction to the Authority.

**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.** All written notices to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, confirmed by the recipient (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 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 Authority: South Gate Utility Authority  
8650 California Avenue  
South Gate, California 90280  
Attention: Executive Director

If to the Trustee: U.S. Bank National Association  
633 W. Fifth Street, 24<sup>th</sup> Floor  
Los Angeles, California 90071  
Attention: Global Corporate Trust Services  
Ref: South Gate Utility Authority Revenue Bonds,  
2012 Series

**Section 11.08. Evidence of Rights of Bond Owners.** Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 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 Indenture.

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, unless all outstanding Bonds are then so owned or held, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority 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 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 that have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 12.09 if the pledgee shall certify to 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 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. Upon request of the Trustee, the Authority shall specify to the Trustee those Bonds which are disqualified pursuant to this Section 12.09.

**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. 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 of or interest or premium (if any) 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 11.12. Successor Is Deemed Included in All References to Predecessor.** Whenever in this Indenture either 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 11.13. 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.

**Section 11.14. Governing Law.** This Indenture shall be governed by and construed in accordance with the laws of the State.

IN WITNESS WHEREOF, the South Gate Utility Authority has caused this Indenture to be signed in its name by its Executive Director, 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.

SOUTH GATE UTILITY AUTHORITY

By: \_\_\_\_\_  
Executive Director

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By: \_\_\_\_\_  
Authorized Signatory

**EXHIBIT A - FORM OF TAX-EXEMPT BOND**

R-\_\_\_\_\_

\$\_\_\_\_\_

**UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
COUNTY OF LOS ANGELES**

**South Gate Utility Authority  
Water Revenue Refunding Bond, 2019 Series A**

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP
_____%	October 1, 20__	December __, 2019	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

The South Gate Utility Authority, a joint powers authority, duly organized and existing under the laws of the State of California (the "Authority"), 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 (as hereinafter defined) next preceding the date of authentication of this Tax-Exempt Bond unless (i) this Tax-Exempt 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, in which event it shall bear interest from such Interest Payment Date, or (ii) this Tax-Exempt Bond is authenticated on or before March 15, 2020 in which event it shall bear interest from the Dated Date specified above; provided, however, that if at the time of authentication of this Tax-Exempt Bond, interest is in default on this Tax-Exempt Bond, this Tax-Exempt Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Tax-Exempt Bond, at the Interest Rate per annum specified above, payable semiannually on April 1 and October 1, in each year, commencing April 1, 2020 (collectively, the "Interest Payment Dates"), 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 (the "Trustee"), St. Paul, Minnesota (the "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 close

of business on the fifteenth day of the month preceding each Interest Payment Date (a “Record Date”), or, upon written request filed with the Trustee prior to such Record Date by a Registered Owner of at least \$1,000,000 in aggregate principal amount of Tax-Exempt 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 Tax-Exempt Bond is one of a duly authorized issue of bonds of the Authority designated as the “South Gate Utility Authority, Water Revenue Refunding Bonds, 2019 Series A (the “Tax-Exempt Bonds”), in an aggregate principal amount of \$[Series A principal amount] 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 Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Bond Law”), and pursuant to an Indenture of Trust, dated as of December 1, 2019, by and between the Authority and the Trustee (the “Indenture”) and a resolution of the Board of the Authority adopted on November 26, 2019, authorizing the issuance of the Tax-Exempt Bonds. Concurrently with the issuance of the Tax-Exempt Bonds, the Authority is also issuing the \$[Series A-T principal amount] South Gate Utility Authority, Taxable Water Revenue Refunding Bonds, 2019 Series A-T (the “Taxable Bonds,” and together with the Tax-Exempt Bonds, the “Bonds”), issued under the Bond Law and pursuant to the Indenture. 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 Net Water 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 Tax-Exempt Bond, by acceptance hereof, assents and agrees.

This Tax-Exempt Bond and the interest and premium, if any, hereon and all other Bonds and the interest and premium, if any, 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 Net Water Revenues (as defined in the Indenture). As and to the extent set forth in the Indenture, all of the Net Water Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest and premium (if any) on the Bonds.

Neither this Tax-Exempt Bond nor the payment of the principal or any part thereof nor any interest thereon constitutes a debt, liability or obligation of the City, the County of Los Angeles, the State of California, or any of its political subdivisions, other than the Authority and neither the City, said County, said State, nor any of its political subdivisions, is liable hereon nor in any event shall this Tax-Exempt Bond be payable out of any funds or properties of the Authority other than the Net Water Revenues.

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 extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of

payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each Bond so affected.

The Tax-Exempt Bonds are subject to redemption as provided in the Indenture.

As provided in the Indenture, notice of redemption shall be mailed by the Trustee 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 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 or the cessation of accrual of interest thereon from and after the date fixed for redemption.

If this Tax-Exempt 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.

This Tax-Exempt Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the 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 Tax-Exempt Bond. Upon registration of such transfer, a new Tax-Exempt Bond or Tax-Exempt 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 Tax-Exempt Bond may be exchanged at the Trust Office of the Trustee for Bonds of the same tenor, aggregate principal amount, interest rate and maturity, of other authorized denominations. Transfer or exchange of this Tax-Exempt Bond will not be permitted during the period established by the Trustee for selection of Bonds for redemption or if this Tax-Exempt Bond has been selected for redemption.

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.

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 Tax-Exempt Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Bond Law and the laws of the State of California and that the amount of this Tax-Exempt Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Bond Law or 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 Tax-Exempt Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the Trustee's Certificate of Authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used and not defined herein shall have the meanings ascribed to them in the Indenture.

IN WITNESS WHEREOF, the South Gate Utility Authority has caused this Tax-Exempt Bond to be executed in its name and on its behalf with the manual signature of its Chairperson and attested to by the manual signature of its Secretary, all as of the Dated Date specified above.

SOUTH GATE UTILITY AUTHORITY]

By: \_\_\_\_\_  
Chairperson

Attest:

\_\_\_\_\_  
Secretary



CERTIFICATE OF AUTHENTICATION

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

Dated: \_\_\_\_\_, \_\_\_\_

U.S. Bank National Association, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Tax-Exempt Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM -- as tenants in common

UNIF GIFT MIN ACT \_\_\_ Custodian

TEN ENT -- as tenants by the entireties

(Cust) - (Minor)  
under Uniform Gifts to Minors

JT TEN -- as joint tenants with right of survivorship and not as tenants in common

Act \_\_\_\_\_  
(State)

ADDITIONAL ABBREVIATIONS MAY ALSO BE USED  
THOUGH NOT IN THE LIST ABOVE

(FORM OF ASSIGNMENT)

For value received, the undersigned do(es) hereby sell, assign and transfer unto

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

the within Tax-Exempt Bond and does hereby irrevocably constitute and appoint attorney, to transfer the same on the registration books of the Trustee, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

\_\_\_\_\_  
Notes: Signature(s) must be guaranteed by an eligible guarantor.

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

**EXHIBIT B - FORM OF TAXABLE BOND**

R-\_\_\_\_\_

\$\_\_\_\_\_

**UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
COUNTY OF LOS ANGELES**

**South Gate Utility Authority  
Taxable Water Revenue Refunding Bond, 2019 Series A-T**

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP
_____%	October 1, 20____	December ____, 2019	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

The South Gate Utility Authority, a joint powers authority, duly organized and existing under the laws of the State of California (the "Authority"), 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 (as hereinafter defined) next preceding the date of authentication of this Taxable Bond unless (i) this Taxable 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, in which event it shall bear interest from such Interest Payment Date, or (ii) this Taxable Bond is authenticated on or before March 15, 2020 in which event it shall bear interest from the Dated Date specified above; provided, however, that if at the time of authentication of this Taxable Bond, interest is in default on this Taxable Bond, this Taxable Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Taxable Bond, at the Interest Rate per annum specified above, payable semiannually on April 1 and October 1, in each year, commencing April 1, 2020 (collectively, the "Interest Payment Dates"), 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 (the "Trustee"), St. Paul, Minnesota (the "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 close of business on the fifteenth day of the month

preceding each Interest Payment Date (a "Record Date"), or, upon written request filed with the Trustee prior to such Record Date by a Registered Owner of at least \$1,000,000 in aggregate principal amount of Taxable 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 Taxable Bond is one of a duly authorized issue of bonds of the Authority designated as the "South Gate Utility Authority, Taxable Water Revenue Refunding Bonds, 2019 Series A-T (the "Taxable Bonds"), in an aggregate principal amount of \$[Series A-T principal amount] 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 Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law"), and pursuant to an Indenture of Trust, dated as of December 1, 2019, by and between the Authority and the Trustee (the "Indenture") and a resolution of the Board of the Authority adopted on November 26, 2019, authorizing the issuance of the Taxable Bonds. Concurrently with the issuance of the Taxable Bonds, the Authority is also issuing the \$[Series A principal amount] South Gate Utility Authority, Water Revenue Refunding Bonds, 2019 Series A (the "Tax-Exempt Bonds," and together with the Taxable Bonds, the "Bonds"), issued under the Bond Law and pursuant to the Indenture. 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 Net Water 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 Taxable Bond, by acceptance hereof, assents and agrees.

This Taxable Bond and the interest and premium, if any, hereon and all other Bonds and the interest and premium, if any, 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 Net Water Revenues (as defined in the Indenture). As and to the extent set forth in the Indenture, all of the Net Water Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest and premium (if any) on the Bonds.

Neither this Taxable Bond nor the payment of the principal or any part thereof nor any interest thereon constitutes a debt, liability or obligation of the City, the County of Los Angeles, the State of California, or any of its political subdivisions, other than the Authority and neither the City, said County, said State, nor any of its political subdivisions, is liable hereon nor in any event shall this Taxable Bond be payable out of any funds or properties of the Authority other than the Net Water Revenues.

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 extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each Bond so affected.

The Taxable Bonds are subject to redemption as provided in the Indenture.

As provided in the Indenture, notice of redemption shall be mailed by the Trustee 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 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 or the cessation of accrual of interest thereon from and after the date fixed for redemption.

If this Taxable 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.

This Taxable Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the 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 Taxable Bond. Upon registration of such transfer, a new Taxable Bond or Taxable 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 Taxable Bond may be exchanged at the Trust Office of the Trustee for Bonds of the same tenor, aggregate principal amount, interest rate and maturity, of other authorized denominations. Transfer or exchange of this Taxable Bond will not be permitted during the period established by the Trustee for selection of Bonds for redemption or if this Taxable Bond has been selected for redemption.

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.

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 Taxable Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Bond Law and the laws of the State of California and that the amount of this Taxable Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Bond Law or 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 Taxable Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the Trustee's Certificate of Authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used and not defined herein shall have the meanings ascribed to them in the Indenture.

IN WITNESS WHEREOF, the South Gate Utility Authority has caused this Taxable Bond to be executed in its name and on its behalf with the manual signature of its Chairperson and attested to by the manual signature of its Secretary, all as of the Dated Date specified above.

SOUTH GATE UTILITY AUTHORITY]

By: \_\_\_\_\_  
Chairperson

Attest:

\_\_\_\_\_  
Secretary

**CERTIFICATE OF AUTHENTICATION**

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

Dated: \_\_\_\_\_, \_\_\_\_\_

U.S. Bank National Association, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Taxable Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM -- as tenants in common

UNIF GIFT MIN ACT \_\_\_ Custodian

TEN ENT -- as tenants by the entireties

(Cust) - (Minor)  
under Uniform Gifts to Minors

JT TEN -- as joint tenants with right of survivorship and not as tenants in common

Act \_\_\_\_\_  
(State)

ADDITIONAL ABBREVIATIONS MAY ALSO BE USED  
THOUGH NOT IN THE LIST ABOVE

(FORM OF ASSIGNMENT)

For value received, the undersigned do(es) hereby sell, assign and transfer unto

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

the within Taxable Bond and does hereby irrevocably constitute and appoint attorney, to transfer the same on the registration books of the Trustee, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

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

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



## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the South Gate Utility Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”) in connection with the issuance of \$\_\_\_\_\_ aggregate principal amount of Water Revenue Refunding Bonds, 2019 Series A (the “Tax-Exempt Bonds”), and the \$[\_\_\_\_\_] aggregate principal amount of Taxable Water Revenue Refunding Bonds, 2019 Series A-T (the “Taxable Bonds” and together with the Tax-Exempt Bonds, the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2019 (the “Indenture”), between the Authority and the Trustee. In connection therewith the Authority and the Trustee covenant and agree as follows:

**Section 1. Purpose of this Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Authority and the Trustee for the benefit of the Bondholders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters (as defined herein) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

“Annual Report” shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

“Disclosure Representative” shall mean the Treasurer of the Authority or his or her designee, or such other officer or employee as the Authority shall designate in writing to the Trustee from time to time.

“Dissemination Agent” shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Trustee a written acceptance of such designation.

“Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Holder” shall mean either the registered owners of the Bonds or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean 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>.

“Obligated Person” means any person, including the Authority, 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).

“Official Statement” shall mean the Official Statement for the Bonds dated December \_\_, 2019.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds listed on the cover page of the Official Statement required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

“State” shall mean the State of California.

### Section 3. Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than March 31 of each year, commencing March 31, 2020, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as prescribed by 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 4 of this Disclosure Agreement; *provided* that if the audited financial statements of the Authority are not available by the date required above for the filing of the Annual Report, the Authority shall submit the audited financial statements as soon as available. If the Authority’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) If the Authority is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Trustee shall send to the MSRB a notice in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent shall:

- (i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and
- (ii) file a report with the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4. Content of Annual Reports. The Authority's Annual Report shall contain or include by reference the following categories or similar categories of information updated to incorporate information for the most recent fiscal or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement relating to the Bonds):

(a) The audited financial statements of the Authority for the prior Fiscal Year, prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) Updated information comparable to the information in the following tables in the section of the Official Statement entitled "THE WATER ENTERPRISE":

- (i) "Table 1 - Water Enterprise Local Water Production;"
- (ii) "Table 2 - Water Enterprise Number of Connections by Class of Customers;"
- (iii) "Table 3 - Water Enterprise Water Revenues Generated by Class of Customers;"
- (iv) "Table 4 - Water Enterprise Rates and Charges;"
- (v) "Table 6 - Water Enterprise Ten Largest Customers;" and
- (vi) "Table 8 - Water Enterprise Historical Operating Results and Debt Service Coverage."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which have been submitted to the MSRB or the SEC. If any document included by reference is a final official statement, it must be available from the MSRB. The Authority shall clearly identify each such other document so included by reference. It shall be sufficient for information required of by Section 4(b) of this Disclosure Agreement for the Annual Report due March 31, 2020, to reference the final Official Statement dated December \_\_\_, 2019.

Section 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this section, upon the occurrence of any of the following events (in each case to the extent applicable) with respect to the Bonds, the Authority shall give, or cause to be given by so notifying the Dissemination Agent in writing and instructing the Dissemination Agent to give, notice of the occurrence of such event, in each case, pursuant to Section 5(c) hereof:

1. principal or interest payment delinquencies;
2. non-payment related defaults, if material;
3. modifications to the rights of the Bondholders, if material;
4. optional, contingent or unscheduled calls, if material, and tender offers;
5. defeasances;
6. rating changes;
7. adverse tax opinions or 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;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds, if material;
12. bankruptcy, insolvency, receivership or similar proceedings of the Authority<sup>1</sup>;

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<sup>1</sup> For these purposes, any event described in item 12 of this Section 5(a) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States 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 Authority, 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 Authority.

13. appointment of a successor or additional trustee or the change of name of a trustee, if material;
14. the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority 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;
15. incurrence of a Financial Obligation of an Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of an Obligated Person, any of which affect security holders, if material; or
16. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of an Obligated Person, any of which reflect financial difficulties.

(b) Upon receipt of notice from the Authority and instruction by the Authority to report the occurrence of any Listed Event, the Dissemination Agent shall provide notice thereof to the MSRB in accordance with Section 5(c) hereof. In the event the Dissemination Agent shall obtain actual knowledge of the occurrence of any of the Listed Events, the Dissemination Agent shall, immediately after obtaining such knowledge, contact the Disclosure Representative, inform such person of the event, and request that the Authority promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section 5(c). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Event shall mean actual knowledge by the Dissemination Agent, if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture. The Dissemination Agent shall have no responsibility to determine the materiality, if applicable, of any of the Listed Events.

(c) The Authority, or the Dissemination Agent, if the Dissemination Agent has been instructed by the Authority to report the occurrence of a Listed Event, shall file a notice of such occurrence with the MSRB in a timely manner not more than ten (10) business days after the occurrence of the event.

Section 6. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a

successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, U.S. Bank National Association, upon notice from the Authority, shall be the Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Agreement. The Dissemination Agent shall receive compensation for the services provided pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the Authority and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Authority, the Trustee and the Dissemination Agent may amend this Disclosure Agreement provided, the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Agreement may be waived, provided that in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Authority shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority.

Section 9. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

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

Section 11. Default. In the event of a failure of the Authority or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the Holders of at least 25% of the aggregate principal amount of Outstanding Bonds and upon provision of indemnification satisfactory to the Trustee, shall, or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Authority or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance hereunder.

Section 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if the Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations on liability afforded to the Trustee thereunder. The Dissemination Agent (if other than the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Authority agrees to indemnify and save the Trustee and the Dissemination Agent, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding any loss, expense and liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Authority under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Authority:

South Gate Utility Authority  
8650 California Avenue  
South Gate, California 90280  
Attention: Executive Director  
Phone: (323) 563-9500  
Fax: (323) 569-2678

To the Trustee or the Dissemination Agent:

U.S. Bank National Association  
633 West Fifth Street, 24<sup>th</sup> Floor  
Los Angeles, California 90071  
Attention: Corporate Trust Services  
Phone: (213) 615-6002  
Fax: (213) 615-6199

Section 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Trustee, the Dissemination Agent, the Participating Underwriters and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, this Disclosure Agreement has been executed on behalf of the Authority and the Trustee by their duly authorized representatives as of December 1, 2019.

SOUTH GATE UTILITY AUTHORITY,  
as Lessee

By: \_\_\_\_\_  
Executive Director

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By: \_\_\_\_\_  
Authorized Officer



EXHIBIT A

**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Name of Authority: South Gate Utility Authority

Name of Bond Issue: \$\_\_\_\_\_ South Gate Utility Authority Water Revenue Refunding Bonds, 2019 Series A, and \$\_\_\_\_\_ South Gate Utility Authority Taxable Water Revenue Refunding Bonds, 2019 Series A-T

Date of Issuance: December \_\_\_\_\_, 2019

NOTICE IS HEREBY GIVEN that the South Gate Utility Authority (the "Authority") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Agreement, dated as of December 1, 2019, by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Authority anticipates that the Annual Report will be filed by \_\_\_\_\_, 20\_\_.

Dated: \_\_\_\_\_, 20\_\_

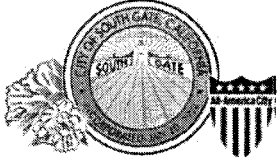
U.S. BANK NATIONAL ASSOCIATION, as  
Trustee on behalf of the Authority

By: \_\_\_\_\_  
Authorized Officer

cc: South Gate Utility Authority

**PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 27, 2019****NEW ISSUE — FULL BOOK-ENTRY****RATING: S&P: “AA-”**  
(See “RATING” herein.)

*In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the Tax-Exempt Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is further of the opinion that interest on the Tax-Exempt Bonds is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California. The Authority has taken no action to cause, and does not intend, interest on the Taxable Bonds to be excluded from the gross income of the owners thereof for federal income tax purposes. See “TAX EXEMPTION.”*

**SOUTH GATE UTILITY AUTHORITY**

\$ \_\_\_\_\_  
**WATER REVENUE  
 REFUNDING BONDS**  
 2019 Series A

\$ \_\_\_\_\_  
**TAXABLE WATER REVENUE  
 REFUNDING BONDS**  
 2019 Series A-T

**Dated: Date of Delivery****Due: October 1, as shown on the inside cover**

The South Gate Utility Authority Water Revenue Refunding Bonds, 2019 Series A (the “Tax-Exempt Bonds”), and the South Gate Utility Authority Taxable Water Revenue Refunding Bonds, 2019 Series A-T (the “Taxable Bonds,” and together with the Tax-Exempt Bonds, the “Bonds”) are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Interest on the Bonds will be payable on April 1 and October 1 of each year, commencing April 1, 2020. Payment of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by U.S. Bank National Association, Los Angeles, California (the “Trustee”), so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to DTC’s Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC’s Participants and Indirect Participants, as more fully described herein. See “APPENDIX E -- BOOK-ENTRY ONLY SYSTEM.”

**The Bonds are subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption as described herein.**

The South Gate Utility Authority (the “Authority”) leased the water system (the “Water Enterprise”) of the City of South Gate (the “City”) pursuant to a Lease Agreement, dated as of November 1, 2001 (the “Lease Agreement”), by and between the Authority and the City. The Bonds will be issued by the Authority under an Indenture of Trust, dated as of December 1, 2019 (the “Indenture”), by and between the Authority and the Trustee. The proceeds of the Tax-Exempt Bonds will be used to: (i) currently refund a portion of the Authority’s Water Revenue Bonds, 2012 Series (the “2012 Bonds”) maturing on October 1, 2037 (the “2012 Term Bonds”), and (ii) pay costs of issuance of the Tax-Exempt Bonds. The proceeds of the Taxable Bonds will be used to: (i) advance refund a portion of the remaining portion of the 2012 Bonds (the “2012 Serial Bonds”), and (ii) pay costs of issuance of the Taxable Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF FINANCING” herein.

The Bonds are special obligations of the Authority, and are payable from and secured by a charge and first lien upon Net Water Revenues of the Water Enterprise and from amounts held from time to time in the funds and accounts established under the Indenture. The Authority has covenanted in the Indenture not to issue any obligations senior to the Bonds. The Authority may incur other obligations on a parity basis with the Bonds as provided in the Indenture. The Bonds are not payable from, or secured by, any pledge of the lease payments payable by the Authority to the City under the Lease Agreement. See “SECURITY FOR THE BONDS” herein.

A debt service reserve fund will not be funded for the Bonds.

**THE BONDS ARE NOT A DEBT OF THE CITY, THE COUNTY OF LOS ANGELES, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, OTHER THAN THE AUTHORITY, AND NONE OF THE CITY, SAID COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY) IS LIABLE THEREFOR. THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM NET WATER REVENUES AND IN NO EVENT SHALL THE BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE AUTHORITY OTHER THAN THE NET WATER REVENUES.**

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to make an informed investment decision.

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed on for the Authority by the City Attorney as counsel for

\* Preliminary, subject to change.

the Authority and Norton Rose Fulbright US LLP, Disclosure Counsel, and for the Underwriter by its counsel, Nixon Peabody LLP. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about December 18, 2019.

[UNDERWRITER LOGO]

Dated: December \_\_, 2019

**MATURITY SCHEDULE**

(Base CUSIP Number \_\_\_\_\_)<sup>1</sup>

\$ \_\_\_\_\_<sup>\*</sup>  
**WATER REVENUE REFUNDING BONDS**  
**2019 Series A**

<u>Payment Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP<sup>†</sup></u> <u>Number</u>
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\$ \_\_\_\_\_ % Term Bond due October 1, 20\_\_, Yield: \_\_\_\_\_%; CUSIP<sup>†</sup> No.: \_\_\_\_\_  
 \$ \_\_\_\_\_ % Term Bond due October 1, 20\_\_, Yield: \_\_\_\_\_%; CUSIP<sup>†</sup> No.: \_\_\_\_\_

\$ \_\_\_\_\_<sup>\*</sup>  
**TAXABLE WATER REVENUE REFUNDING BONDS**  
**2019 Series A-T**

<u>Payment Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP<sup>†</sup></u> <u>Number</u>
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<sup>1</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the Underwriter, the Municipal Advisor or the City and are included solely for the convenience of the holders of the Bonds. None of the Authority, the Underwriter, the Municipal Advisor or the City is responsible for the selection or use of these CUSIP numbers and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity 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 the Bonds.

\* Preliminary, subject to change.

**SOUTH GATE UTILITY AUTHORITY**

**City Council, Authority Board of Directors and Other Elected Officials**

Maria “Belén” Bernal, *Mayor/Chairperson*  
Denise Diaz, *Vice Mayor/Vice Chairperson*  
Maria Davila, *Council Member/Board Member*  
Al Rios, *Council Member/Board Member*  
Bill De Witt, *Council Member/Board Member*

Gregory Martinez, *City Treasurer*  
Carmen Avalos, *City Clerk*

**City Staff**

Michael S. Flad, *City Manager*  
Jackie Acosta, *Director of Administrative Services*  
Chris Castillo, *Water Division Manager*  
Raul F. Salinas, *City Attorney*

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***SPECIAL SERVICES***

**MUNICIPAL ADVISOR**

Columbia Capital Management LLC  
Glendale, California

**BOND AND DISCLOSURE COUNSEL**

Norton Rose Fulbright US LLP  
Los Angeles, California

**TRUSTEE**

U.S. Bank National Association  
Los Angeles, California

**VERIFICATION AGENT**

Causey Demgen & Moore, P.C.

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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 any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized by the Authority to provide any information or to make any representations 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.

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

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

The information set forth herein has been obtained from public documents, records and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. Any statements in this Official Statement involving estimates, assumptions and matters of opinion, whether or not so expressly stated, are intended as such and not as representations that such estimates, assumptions and opinions will be realized or fulfilled. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof or the earliest date on which such information was given. 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. All summaries of documents and laws contained herein are qualified by reference to the complete provisions of all such documents and laws, and do not purport to be complete statements of any or all such provisions.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT 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 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.

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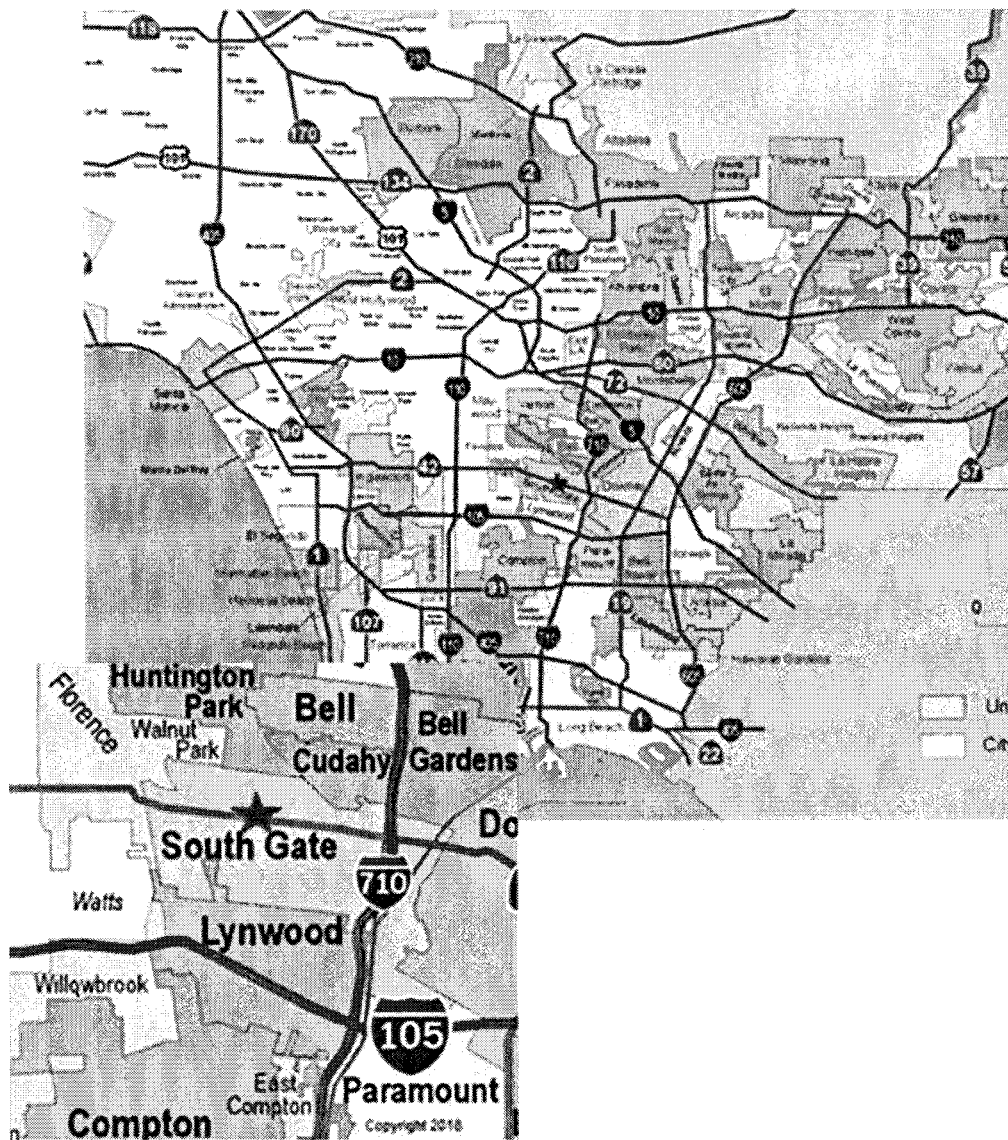
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CITY OF SOUTH GATE LOCATION MAP



OFFICIAL STATEMENT

SOUTH GATE UTILITY AUTHORITY

\$ \_\_\_\_\_\*  
WATER REVENUE  
REFUNDING BONDS  
2019 Series A

\$ \_\_\_\_\_\*  
TAXABLE WATER REVENUE  
REFUNDING BONDS  
2019 Series A-T

INTRODUCTION

*This Official Statement of the South Gate Utility Authority (the "Authority") sets forth certain information in connection with the sale by the Authority of \$ \_\_\_\_\_\* aggregate principal amount of its Water Revenue Refunding Bonds, 2019 Series A (the "Tax-Exempt Bonds") and \$ \_\_\_\_\_\* aggregate principal amount of its Taxable Water Revenue Refunding Bonds, 2019 Series A-T (the "Taxable Bonds," and together with the Tax-Exempt Bonds, the "Bonds"). This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement. 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 C - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for summaries of certain of such definitions.*

**The Water Enterprise**

The Authority leased the water system (the "Water Enterprise") of the City of South Gate (the "City") from the City pursuant to a Lease Agreement, dated as of November 1, 2001 (the "Lease Agreement"), by and between the Authority and the City. The Lease Agreement expires on December 1, 2056, and there are no provisions for early reversion of the Water Enterprise to the City prior to payment in full of the Bonds. The Water Enterprise consists of the entire water treatment, production, storage and distribution system currently owned or operated by the City and being leased by the Authority from the City, including but not limited to all facilities, properties and improvements at any time owned or operated by the Authority, as lessee, for the collection, treatment and supply of water to residents served thereby, whether within or without the City, and any necessary lands, rights, entitlements and other property useful in connection therewith, and including all additions, betterments, extensions and improvements to such water system or any part thereof hereafter acquired or constructed. *The lease payment obligations of the Authority under the Lease Agreement are subordinate to the debt service payment obligations of the Authority under the Bonds.*

Pursuant to a Water Enterprise Management Agreement, dated as of November 1, 2001 (the "Management Agreement"), by and between the City and the Authority, the City continues to manage and operate the Water Enterprise. The term of the Management Agreement is automatically renewed each November 1 for a 12 month period unless terminated earlier by either party. The City is paid a management fee equal to the actual costs and direct overhead of the City incurred in connection with the management

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\* Preliminary, subject to change.

and operation of the Water Enterprise. Under the Management Agreement, the City prepare an annual budget for the Water Enterprise. Under the Lease Agreement, the Authority and the City will fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise as whole for the services and improvements furnished by the Water Enterprise.

The Water Enterprise serves approximately 90% of the City with other portions being served by neighboring water companies. The Water Enterprise provides water services to 14,231 connections of which 12,790 are residential connections and the remaining 1,441 are non-residential connections. For further information concerning the Water Enterprise, see "THE WATER ENTERPRISE."

For informational purposes only with respect to the City, see "GENERAL INFORMATION ABOUT THE CITY OF SOUTH GATE" attached hereto as Appendix A. The City is not obligated in any manner to pay principal of, or interest on, the Bonds or to cure any delinquency or default on the Bonds.

### **The Bonds**

The Bonds are being issued pursuant to the Constitution and the laws of the State of California (the "State"), including the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584) of the California Government Code, as amended (the "Bond Law"), and pursuant to the Indenture of Trust, dated as of December 1, 2019 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

The Authority previously issued its \$34,170,000 Water Revenue Bonds, 2012 Series A (the "2012 Bonds"). The proceeds of the Tax-Exempt Bonds will be used to: (i) currently refund the 2012 Bonds maturing on October 1, 2037 (the "2012 Term Bonds"), and (ii) pay costs of issuance of the Tax-Exempt Bonds. The proceeds of the Taxable Bonds will be used to: (i) advance refund the remaining portion of the 2012 Bonds (the "2012 Serial Bonds"), and (ii) pay costs of issuance of the Taxable Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS."

The Bonds are special obligations of the Authority, and are payable from, and secured by, a charge and first lien upon, the Net Water Revenues of the Water Enterprise and amounts held from time to time in the funds and accounts established under the Indenture. Net Water Revenues generally consist of gross water revenues of the Water Enterprise minus direct water costs of the Water Enterprise. The Authority has covenanted in the Indenture not to incur any obligations secured by the lien on Net Water Revenues senior to the Bonds. The Authority may issue other obligations secured by a lien on the Net Water Revenues on a parity basis with the Bonds as provided in the Indenture. The Bonds are not payable from or secured by any pledge of the lease payments payable by the Authority to the City under the Lease Agreement. The lease payment obligations of the Authority under the Lease Agreement are subordinate to the debt service payment obligations of the Authority under the Bonds. See "SECURITY FOR THE BONDS" and "BOND OWNERS' RISKS." See also "PARITY OBLIGATIONS" herein for a discussion of conditions under which additional Parity Obligations may be issued.

**A debt service reserve fund will *not* be funded for the Bonds.**

### **Water Enterprise Finances**

The audited financial results of the Water Enterprise are a part of the City's Comprehensive Annual Financial Reports (CAFRs). The fiscal year 2018-19 unaudited water revenues totaled \$19,453,897. Water sales are the primary source of revenue for the Water Enterprise. In fiscal years 2015 to 2019, the portion of total Water Enterprise revenues attributable to water sales ranged from approximately 86.3% to 93.3%.

Other revenue sources include grants, charges for services and interest income. See “WATER ENTERPRISE— Historical Operating Results and Debt Service Coverage.”

The City and the Authority have the power and authority to establish charges for water service. The Water Enterprise’s rates and charges are established by resolution of the City Council. The Authority can refuse or terminate service to delinquent customers and can require full payment of delinquent amounts and reconnection charges to resume service. Unpaid charges may become a lien on real property by recordation of a notice thereof.

For further information concerning the Water Enterprise finances, see “WATER ENTERPRISE.”

### **Continuing Disclosure**

The Authority has covenanted in a continuing disclosure agreement, dated as of December 1, 2019 (the “Continuing Disclosure Agreement”) to provide, or cause to be provided, certain annual financial information and operating data of the Water Enterprise including, but not limited to, the City’s audited financial statements and, in a timely manner, notice of certain enumerated events for purposes of Rule 15c2–12(b)(5) adopted by the Securities and Exchange Commission (the “Rule”). See “CONTINUING DISCLOSURE” and APPENDIX D—FORM OF CONTINUING DISCLOSURE AGREEMENT for a description of the specific nature of the annual reports and notices of certain enumerated events to be provided by the Authority, and a description of the terms of the Continuing Disclosure Agreement pursuant to which such reports and notices are to be made.

### **Tax Exemption**

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, subject, however, to certain qualifications described in this Official Statement, under existing law, interest on the Tax-Exempt Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State. See “TAX EXEMPTION.”

### **Certain Risk Factors**

Certain events could affect the ability of the Authority to make payments when due on the Bonds. See “RISK FACTORS” for a discussion of some of the risk factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds.

### **Further Information**

Brief descriptions of the Bonds, the Indenture, the Lease Agreement, the Bond Law, the Authority, the City and the Water Enterprise are included in this Official Statement. Such information does not purport to be comprehensive or definitive. All references herein to the Indenture, the Lease Agreement, the Bond Law, the Constitution and the laws of the State, and the proceedings of the Authority and the City, are qualified in their entirety by reference to each such document, statute, constitution or proceedings. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings as in the Indenture. References herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the Indenture and the Lease Agreement are available for inspection at the office of the Authority.

## THE SOUTH GATE UTILITY AUTHORITY

The Authority is a joint powers authority of the State organized and existing under, and by virtue of, Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code, as amended (the "Bond Law"). The City and the former Community Development Commission of the City of South Gate entered into a Joint Exercise of Powers Agreement dated as of August 28, 2001 (the "Joint Powers Agreement") to establish the Authority. The Authority is governed by a Board of five Members comprising the same individuals as does the City Council of the City. The current Authority members are the City and the South Gate Housing Authority. The Authority was created for the purpose, among other things, of providing for the lease, ownership, operation and maintenance of any utility system or service, providing financing for public capital improvements for the City through the lease or acquisition by the Authority of such public capital improvements, or engaging in financings relating to the encouragement of economic development and the stimulation of public revenues in the City through the acquisition and financing by the Authority of such public capital improvements. Under the Bond Law, the Authority has the power to issue bonds to pay the costs of public capital improvements.

## THE BONDS

### General

The Bonds will be issued in fully registered form without coupons in Authorized Denominations of \$5,000 and any integral multiple thereof.

The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York, New York, and will be initially evidenced by one Bond for each of the maturities in the principal amounts shown on the inside cover page of this Official Statement. DTC is the depository for the Bonds, and registered ownership may not thereafter be transferred except as set forth in the Indenture. The Bonds will mature on October 1 in the years and in the amounts shown on the inside cover page of this Official Statement and will bear interest on each Interest Payment Date at the rates shown on the inside cover of this Official Statement.

Interest on the Bonds will be payable semi-annually on each April 1 and October 1 (each, an "Interest Payment Date") calculated based on a 360-day year of twelve (12) thirty-day months on each Interest Payment Date, commencing April 1, 2020, to the person whose name appears on the registration books of the Trustee 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 or principal 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 prior to the applicable Record Date. Principal of any Bond and any premium upon redemption will be paid by check or wire of the Trustee upon presentation and surrender thereof at the Trust Office. Principal of, and interest and premium (if any) on, the Bonds will be payable in lawful money of the United States of America.

Each Bond will be dated as of the Delivery Date and will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before March 15, 2020, in which event it will 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 will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

**Optional Redemption**

*Optional Redemption of Tax-Exempt Bonds.* The Tax-Exempt Bonds maturing on or after October 1, 2028 shall be subject to optional redemption, as a whole or in part, on any date prior to the maturity thereof, at the option of the Authority, on or after October 1, 2027, from funds derived by the Authority from any source, at the redemption price equal to the principal amount of the Tax-Exempt Bonds to be redeemed, together with accrued interest, without premium.

*Optional Redemption of Taxable.* The Taxable Bonds maturing on or after October 1, 2030 shall be subject to optional redemption, as a whole or in part, on any date prior to the maturity thereof, at the option of the Authority, on or after October 1, 2029, from funds derived by the Authority from any source, at the redemption price equal to the principal amount of the Taxable Bonds to be redeemed, together with accrued interest, without premium.

**Mandatory Sinking Account Redemption**

The Tax-Exempt Term Bonds maturing on October 1, 20\_\_ and October 1, 20\_\_ are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on October 1 in each year, commencing October 1, 20\_\_ and October 1, 20\_\_, respectively, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Tax-Exempt Term Bonds have been redeemed pursuant to special mandatory redemption provisions as set forth in the Indenture, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the Tax-Exempt Term Bonds so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Schedule of Sinking Account Payments for Tax-Exempt Term Bonds  
 Maturing October 1, 20\_\_

Redemption Date (October 1)	Principal Amount
--------------------------------	---------------------

\*Maturity.

Schedule of Sinking Account Payments for Tax-Exempt Term Bonds  
Maturing October 1, 20\_\_

Redemption Date (October 1)	Principal Amount
--------------------------------	---------------------

\*Maturity.

In lieu of such redemption, the Trustee may apply amounts in the Sinking Account to the purchase of Tax-Exempt Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Tax-Exempt Term Bonds, as set forth in a Written Request of the Authority. The par amount of Tax-Exempt Term Bonds so purchased by the Authority in any twelve-month period immediately preceding any mandatory Sinking Account payment date in the table above will be credited towards and will reduce the principal amount of Tax-Exempt Term Bonds required to be redeemed on the succeeding Principal Payment Date.

**Special Mandatory Redemption From Insurance or Condemnation Proceeds**

The Bonds shall also be subject to redemption as a whole or in part on any date, pro rata by maturity and by lot within a maturity (in a manner determined by the Trustee) from moneys deposited in the Redemption Fund to the extent insurance proceeds received with respect to the Water Enterprise are not used to repair, rebuild or replace the Water Enterprise pursuant to the Indenture, or to the extent of condemnation proceeds received with respect to the Water Enterprise and elected by the Authority to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the date fixed for redemption.

**Notice of Redemption**

When redemption is authorized or required, the Trustee is required to give written notice of the redemption of Bonds to the Owners of Bonds designated for redemption at their addresses appearing on the bond registration books, to certain Securities Depositories, and to one or more Information Services, all as provided in the Indenture, by first class mail, postage prepaid, no less than thirty (30), nor more than sixty (60) days prior to the date fixed for redemption. Neither failure to receive such notice nor any defect in the notice so mailed will affect the sufficiency of the proceedings for redemption of such Bonds or the cessation of accrual of interest on the redemption date.

If at the time of mailing of any notice of optional redemption there has not been deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice will state that it is subject to the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date and will be of no effect unless such moneys are so deposited.

The Authority will have the right to rescind any notice of optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of such redemption will be cancelled 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 will not constitute an event of default under the Indenture. The Authority and the Trustee will have no liability to the Owners or any other party related to, or arising from, such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

### **Selection of Bonds for 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 or such given portion thereof not previously called for redemption, pro rata by maturity, or, at the election of the Authority, set forth in a Written Request of the Authority, filed with the Trustee, from such maturities as the Authority will determine, and by lot within a maturity in any manner that the Trustee, in its sole discretion, will deem appropriate and fair. For purposes of such selection, the Trustee will treat each Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate Bond.

### **Book-Entry Only System**

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds. The Bonds will be issued initially as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. Payment of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Trustee so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to DTC’s Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC’s Participants and Indirect Participants. See “APPENDIX E – BOOK-ENTRY ONLY SYSTEM.”

## **PLAN OF FINANCING**

On November 20, 2001, the Authority issued its \$30,965,451.15 Subordinate Revenue Bonds, 2001 Series (Water and Sewer System Projects) (the “2001 Bonds”), secured by Net Water Revenues of the Water Enterprise. On December \_\_\_, 2019, for the purpose of defeasing the 2001 CAB Bonds, the Authority will enter into a 2001 CAB Escrow Agreement with U.S. Bank National Association. Accordingly, the 2001 Bonds are no longer outstanding as of December \_\_\_, 2019.

On August 23, 2012, the Authority issued its \$34,170,000 Water Revenue Bonds, 2012 Series A (the “2012 Bonds”), which 2012 Bonds, consisting of serial and term bonds, are on a parity with the 2001 Bonds related to the Water Enterprise. A portion of the proceeds from the sale of the Tax-Exempt Bonds will be used, along with other available moneys, to currently refund the 2012 Term Bonds, and a portion of the proceeds from the sale of the Taxable Bonds will be used, along with other available moneys, to advance refund the 2012 Serial Bonds. Pursuant to a 2012 Bonds Escrow Agreement, dated as of December 1, 2019, the Authority will cause to be deposited into separate escrow funds, moneys sufficient to pay (i) the redemption price of the 2012 Term Bonds on the redemption date of January \_\_\_, 2020, and (ii) the principal of, and interest on, and redemption price of the remaining 2012 Serial Bonds through and including the redemption date of October 1, 2022.

Sufficiency of the deposits in the escrow funds under the aforementioned Escrow Agreements for such purposes will be verified by Causey Demgen & Moore, P.C., Denver, Colorado (the “Verification Agent”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the aforementioned Escrow Agreements, the 2001 Bonds and the 2012 Bonds will be



discharged under the indentures pursuant to which they were issued and the 2001 Bonds and the 2012 Bonds will no longer be secured by a pledge of and lien on the Net Water Revenues and the owners of the 2001 Bonds and the 2012 Bonds will have no rights thereunder except to be paid the principal and interest due on the 2001 Bonds and the 2012 Bonds from amounts in the aforementioned escrow funds.

The remaining proceeds from the sale of the Bonds will be used to pay the costs of issuance of the Bonds.

**ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the estimated sources and uses of funds related to the issuance of the Bonds.

Sources:	Tax-Exempt Bonds	Taxable Bonds
Principal Amount of Bonds		
2012 Bonds Debt Service Reserve Fund Release [Premium/Discount]		
Total Sources		
Uses:		
Deposit to Costs of Issuance Fund <sup>(1)</sup>		
Deposit to Term Bonds Escrow Fund		
Deposit to Serial Bonds Escrow Fund		
Total Uses		

<sup>(1)</sup> Costs of issuance include fees and expenses of Bond Counsel, Disclosure Counsel, Municipal Advisor and the Trustee, Underwriter's discount, rating agency fees, printing expenses and other costs of issuing the Bonds.

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**BOND DEBT SERVICE**

The following table sets forth the Annual Debt Service on the Bonds based on the maturity schedule and interest rates set forth on the inside cover page of this Official Statement (assuming no redemption prior to maturity other than sinking fund redemption).

Bond Year Ending (October 1)	Tax-Exempt Bonds		Taxable Bonds		Total
	Principal	Interest	Principal	Interest	
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
<b>TOTAL</b>	_____	_____	_____	_____	_____

## SECURITY FOR THE BONDS

### General

Pursuant to the Indenture, the Bonds are payable from Net Water Revenues held under the Indenture and investment earnings thereon, all as set forth in the Indenture and in the manner described herein. Net Water Revenues means for any Fiscal Year, an amount equal to all of the Gross Water Revenues, minus the amount required to pay all Direct Water Costs. "Gross Water Revenues" means for any Bond Year, the sum of all gross charges received for, and all other gross income and receipts derived by the Authority from the lease and operation of the Water Enterprise or otherwise arising from the Water Enterprise, including but not limited to investment earnings thereon. "Direct Water Costs" means the reasonable and necessary costs and expenses paid for maintaining and operating the Water Enterprise, including but not limited to (a) costs of acquisition of water to be supplied by the Water Enterprise, (b) cost of electricity and other forms of energy supplied to the Water Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water Enterprise in good repair and working order including, but not limited to, salaries, insurance and retirement benefits of employees of the City providing services to the Water Enterprise and (d) the reasonable administrative costs of the Authority attributable to the operation and maintenance of the Water Enterprise, but in all cases excluding (i) debt service payable on obligations incurred by the Authority with respect to the Water Enterprise, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

The Bonds are not secured by, and the Owners of Bonds have no security interest in or mortgage on, the property of the Water Enterprise (including water rights) or of the Authority. Default by the Authority will not result in loss of any property. Should the Authority default, the Trustee may declare all unpaid principal, together with accrued interest at the rate or rates specified on the respective outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall become due and payable, and take whatever action at law or in equity may appear necessary or desirable to accelerate the principal of the Outstanding Bonds, or enforce performance and observance of any obligation, agreement or covenant of the Authority under the Indenture. See "BOND OWNERS' RISKS - Limited Recourse on Default."

### Water Rate Covenants

Pursuant to the Indenture, the Authority covenants to fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise as a whole for the services and improvements 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 Water Revenues sufficient to pay the following amounts in the following order of priority:

- (a) All Direct Water Costs estimated by the Authority to become due and payable in such Fiscal Year;
- (b) Debt Service payments on the Bonds and any Parity Obligations as they become due and payable during such Fiscal Year, without a preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the Bonds or any Parity Obligations or from any other source of legally available funds of the Authority that have been deposited with the Trustee or the trustee of any Parity Obligation for such purpose prior to the commencement of such Fiscal Year;

- (c) The amount, if any, required to restore the balance in a reserve account, if any, to the full amount of the applicable reserve requirement for a Parity Obligation;
- (d) All payments required for compliance with the terms of the Indenture and the terms of any Supplemental Indenture.
- (e) The amount required to pay Allocated Water Costs; and
- (f) Other payments required to meet any other obligations of the Authority that are charges, liens, encumbrances upon, or which are otherwise payable from, Gross Water Revenues during such Fiscal Year.

The Authority has covenanted to fix, prescribe, revise and collect, or cause to be fixed, prescribed, revised and collected, rates, fees and charges for the services and improvements furnished by the Water Enterprise during each Fiscal Year that are sufficient to yield Net Water Revenues for the Water Enterprise, which are at least equal to one hundred twenty (120%) of the total Debt Service payments on the Bonds and any Parity Obligations coming due and payable in such Fiscal Year.

#### **Application of Gross Water Revenues**

The Authority will cause the City, and the City has agreed and covenanted pursuant to the Lease Agreement, to continue to deposit all of the Gross Water Revenues immediately upon receipt in the Water Fund. The Authority will, from the moneys in the Water Fund, pay all Direct Water Costs as they become due and payable. On or before the tenth (10th) Business Day preceding each Interest Payment Date, provided no Event of Default under the Indenture has occurred and is continuing, the Authority will disburse the following amounts from the Water Fund, in the following order of priority:

- (a) to the Trustee for deposit into the Bond Fund the amount equal to (a) the aggregate amount of interest coming due and payable on the Bonds on the next succeeding Interest Payment Date, plus (ii) one-half ( $\frac{1}{2}$ ) of the aggregate amount of the principal coming due and payable on the next succeeding Principal Payment Date and one-half ( $\frac{1}{2}$ ) of the aggregate amount of the mandatory Sinking Account payments required to be paid for Outstanding Tax-Exempt Term Bonds on the next succeeding Principal Payment Date; plus the payment of any Parity Obligation Payments for outstanding Parity Obligations;
- (b) the amount, if any, required to replenish of any reserve fund for outstanding Parity Obligation to its reserve requirement, if any;
- (c) for payment to the City of unpaid Allocated Water Costs;
- (d) for replenishment, if necessary, to the Water Fund of amounts reasonably required to be set aside in contingency reserves for the Water Enterprise, consisting of at least six months of operating and maintenance expenses for the Water Enterprise.

Amounts remaining in the Water Fund immediately after making the transfers referenced above will be released to the Authority free and clear of the lien of the Indenture, to be used by the Authority for any lawful purpose including but not limited to making Lease Payments pursuant to the Water Lease, deposits to the Rate Stabilization Fund, the payment of any subordinate obligations or any unsecured obligations, the costs for additional improvements, extensions, replacements and betterments to the Water Enterprise, and the prepayment of any obligations of the Authority relating to the Water Enterprise, and to

the extent permitted by the Water Lease, payment of in lieu franchise fees and contributions to the City's General Fund for street improvements related to the Water Enterprise.

### **No Reserve Fund**

The Authority has not undertaken to fund any debt service reserve to secure the payment of debt service on the Bonds.

### **Parity Obligations**

Additional obligations may be issued on a basis subordinate to the Bonds to the extent required. Except for obligations incurred to prepay or post a security deposit for the payment of the Bonds or Parity Obligations, the Authority may issue or incur Parity Obligations during the term of the Bonds only if:

- (a) the Authority is in compliance with all agreements, conditions, covenants and terms contained in the Indenture and in all Supplemental Indentures or agreements providing for the issuance of Parity Obligations required to be observed or performed by it, and a Written Certificate of the Authority to that effect will have been filed with the Trustee (this condition shall not apply where the purpose of the proposed Parity Obligations is to cure such non-compliance);
- (b) the Parity Obligations will have been duly authorized pursuant to the Act and all applicable laws, as evidenced by an opinion of Bond Counsel delivered to the Trustee;
- (c) the Net Water Revenues for the last completed Fiscal Year or any 12 consecutive months within the last 18 months preceding the date of execution of such Parity Obligations, as shown by a Written Certificate of the Authority on file with the Trustee, plus an allowance for increased Net Water Revenues arising from any increase in the rates, fees and charges of the Water Enterprise which was duly adopted by the City Council on behalf of the Authority prior to the date of the execution of such Parity Obligations but which, during all or any part of such 12 month period, was not in effect, in an amount equal to the amount by which the Net Water Revenues would have been increased if such increase in rates, fees and charges had been in effect during the whole of such 12 month period, as shown by a Written Certificate of the Authority on file with the Trustee, will have produced a sum equal to at least 120 percent of the Maximum Annual Debt Service as calculated after the execution of such Parity Obligations; provided, that in the event that all or a portion of such Parity Obligations are to be issued for the purpose of refunding and retiring any Parity Debt then outstanding, interest and principal payments on the Parity Debt to be so refunded and retired from the proceeds of such Parity Obligations being issued will be excluded from the foregoing computation of Maximum Annual Debt Service; provided further, that the Authority may at any time issue Parity Obligations without compliance with the foregoing conditions if, as stated in a Written Certificate of the Authority filed with the Trustee, the Annual Debt Service for each Fiscal Year during which such Parity Debt is outstanding will not be increased by reason of the issuance of such Parity Obligation; and provided further, an adjustment will be made in the amount of Net Water Revenues as provided in the Indenture regarding the Rate Stabilization Fund; provided further that for purposes of the calculation in this section, any amounts reimbursed to the Authority by the United States of America pursuant to a future program similar to the previously enacted Section 54AA of the Code shall not be included in Gross Water Revenues.

**Rate Stabilization Fund**

A “Rate Stabilization Fund” held by the Authority is created by the Indenture. The Authority may, during or within 210 days after a Fiscal Year, deposit surplus Net Water Revenues transferred from the Water Fund attributable to such Fiscal Year (on the basis of Generally Accepted Accounting Principles) into the Rate Stabilization Fund. The City may at any time withdraw moneys from the Rate Stabilization Fund and deposit such amounts into the Water Fund. Net Water Revenues deposited into the Rate Stabilization Fund will not be taken into account as Net Water Revenues in the Fiscal Year to which such deposit is attributable, and amounts withdrawn from the Rate Stabilization Fund and deposited into the Water Fund, during or within 210 days after a Fiscal Year, may be taken into account as Gross Water Revenues in such Fiscal Year; provided that, for purposes of the calculation required under the Indenture, the amount of Net Water Revenues before any credits for withdrawals from the Rate Stabilization Fund may not be less than 100% of Maximum Annual Debt Service; provided further that the foregoing provisions will be subject to the rate stabilization fund provisions of any other Parity Obligation. The Rate Stabilization Fund is not pledged to secure the Bonds or any Parity Obligation. Currently, there is no balance in the Rate Stabilization Fund.

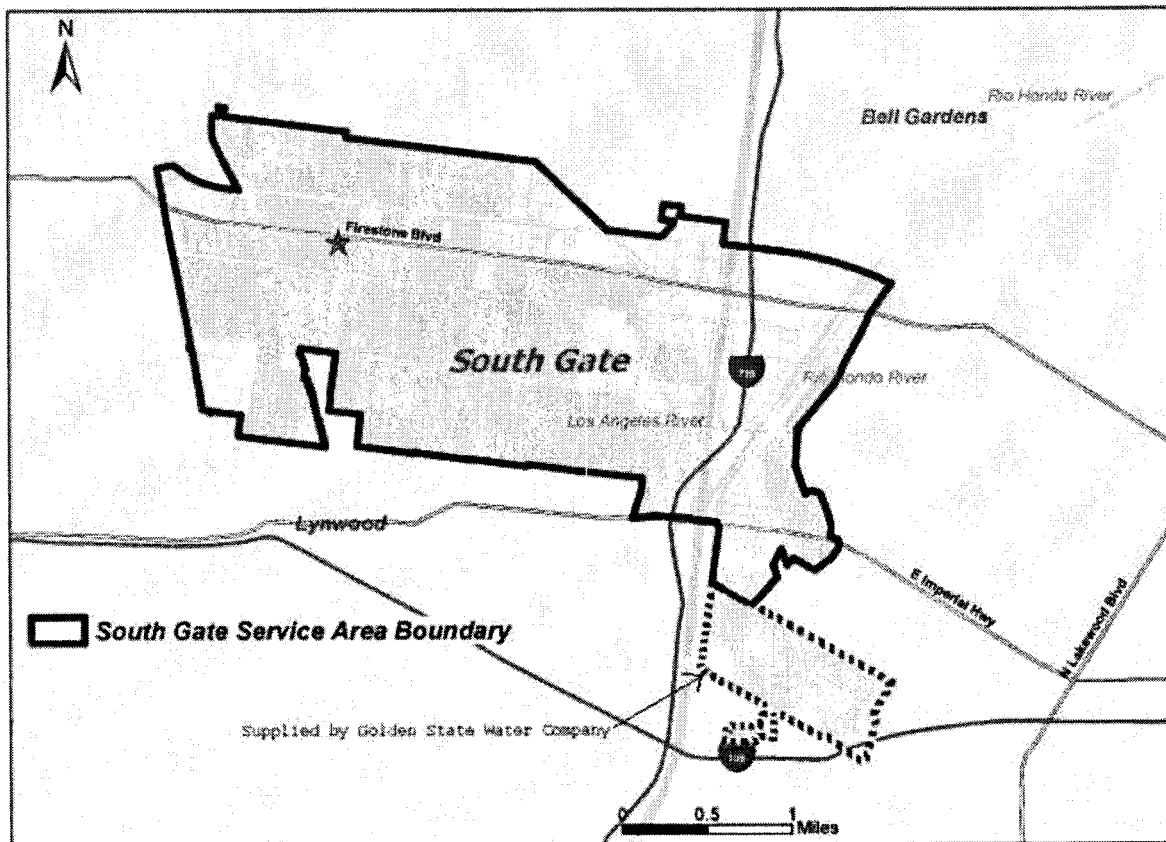
**THE WATER ENTERPRISE**

**General**

The Water Enterprise provides water service to a population of approximately 89,000 and encompasses 7.4 square miles. The Water Enterprise serves all of the City with the exception of the Hollydale area south of Gardendale Avenue, which is served by the Golden State Water Company and the City of Paramount. As of June 30, 2019, the Authority had 14,231 customer connections serving approximately 12,790 residential customers, 3 reclaimed water customers, and another 1,438 connections serving commercial, industrial and municipal accounts. All connections are metered.

The Water Enterprise is located in a coastal plain whose topography is largely determined by the Los Angeles River and the Rio Hondo Channel with terrain that is gently sloping, ranging from 80 to 135 feet in elevation above sea level.

The City is largely made up of residential neighborhoods but still retains areas dedicated to manufacturing and industrial uses and is a center for the Los Angeles Gateway area. Because the City is nearly built out, the population is not expected to grow more than 2% every five years and as such, water demands are not expected to increase dramatically. The City currently has approximately 60 acres of developable vacant land.



The Authority has relied on its own wells for water supply exclusively since 1990, but has the ability to purchase water from the Metropolitan Water District of Southern California (“MWD”) in the event shortages occur. The Authority has two (2) connections with the MWD (“MWD”) and five (5) emergency connections with neighboring water purveyors including, the City of Downey, the City of Lynwood, Walnut Park MWC, the City of Huntington Park and Golden State Water Company.

All wells draw water from the Central Groundwater Basin and the City is a member of the Central Basin Municipal Water District (“CBMWD”). The City has been allocated 11,183 acre-feet/year from the Central Groundwater Basin since prior to 1980. Surplus allocation are leased to other cities and/or agencies. The only treatment of the water, if any, is applied at the wellheads.

Of its twelve (12) groundwater wells, eight (8) are active, one (1) is inactive and three (3) are on standby. Combined, these wells have a flow capacity of approximately 17,500 gallons per minute (“GPM”) Peak daily demand per minute for Fiscal Year 2018-19 was \_\_\_\_\_ gallons. Below is a summary of the groundwater wells:

**Well Summary and Detail**

Well No.	Status	Year Drilled	Depth (ft)	Casing Diameter (in)	Flow Capacity (gpm)	Specific Capacity (gpm/ft)
13	Standby	1940	810	16	1,640	118
14	Active	1944	813	18	2,900	129
18	Active	1945	792	18	1,500	56
19	Active	1947	794	18	2,000	88
22-B	Inactive	1948	578	16	-	-
23	Standby	1952	856	18	622	-
24	Active	1985	1,290	16, 20	1,500	112
25	Standby	1985	1,331	16, 20	350	112
26	Active	1987	1,226	16, 18	1,600	-
27	Active	1989	1,200	16, 18	1,500	-
28	Active	2003	1,095	16, 18	2,500	59
29	Active	2016	1,255	16, 18	1,834	-

*Source: 2019 Water Master Plan.*

The distribution system consists of over 135 miles of water mains ranging from 2 to 24 inches in diameter, five (5) steel tanks with a total storage capacity of 10.12 million gallons (“MG”), and a 4.2 MG underground storage reservoir for a combined 14.32 MG of total water storage capacity, and three booster pumping stations consisting of 12 booster pumps with a total capability to pump 28,000 GPM. The Water Enterprise’s storage capacity equates to \_\_\_\_ days of average daily consumption.

The Water Enterprise plans to implement its water main replacement program over the next five years and will replace water mains according to the 2019 Water Master Plan. Currently, approximately 95% of the pipeline network consists of 4- to 12-inch pipelines. Approximately 42% percent of the Water Enterprise’s pipeline is less than thirty (30) years old with 13% over 100 years old. Approximately 58% are comprised of cast iron piping and 28% are ductile iron pipes. There is a small percentage of asbestos cement, PVC and steel pipes.

All of the connections of the Water Enterprise are metered with a majority of the meters 25 to 30 years old. The Water Enterprise recently replaced 2,400 meters with automatic meter reading (AMR) and plan to implement a City-wide advanced metering infrastructure (AMI) meter project. A majority of the meters tested have been fairly accurate with a plus or minus 3% range. Overall water loss is 7% (includes real and apparent). Production meters (well meters) are tested annually and are within the allowable plus or minus 5% range for water loss.

Below is a summary of the Water Enterprise’s storage tank and pump station capacities:

**Storage Tank Size and Capacity**

Active Tank Site	# of Tanks	Tank Type	Capacity (mg/per tank)	High Water Level (ft)	Year Built
Hawkins	2	Steel tank	2.5	38	1985
South Gate Park	1	Rectangular, cast-in-place concrete with hopper bottom	4.2	25.3	1994
West Side	2	Steel tank	1.66	28.3	2000
Elizabeth	1	Steel tank	1.8	39.5	2017

*Source: 2019 Water Master Plan.*



### Pump Station Size and Capacity

Pump Station	# of Pumps	Type	Flow Capacity per Pump (gpm)	Total Station Capacity (gpm)	Firm Station Capacity (gpm)
Hawkins	3+1	2/4 VFD <sup>1</sup>	2,500 or 2,000	9,500	7,500
South Gate Park	3+1	All Constant Speed	3,000	12,000	9,000
West Side	3+1	All VFD	3,000	12,000	9,000
Elizabeth	2+1	All VFD	1,500	4,500	9,000

1. VFD=Variable Frequency Drive.  
 Source: 2019 Water Master Plan.

The entire water system operates as a single pressure zone. In order to maintain sufficient system pressure, the City’s booster pump stations are set to maintain 60 to 70 psi on a daily basis. This provides the City with a pressure ranging from 50 to 70 pounds per square inch (psi) in the distribution system. The water system is operated and controlled automatically from a telemetry system (SCADA) that links all system facilities with a control center at the City Yard. The well system operates from telemetry signals triggered by either system pressures or reservoir levels.

The Water Enterprise also includes a recycled water distribution system. Recycled water is purchased and delivered through a pipeline system owned and operated from the CBMWD. The Water Enterprise currently has 18 recycled water connections.

#### **Management of the Water Enterprise**

Pursuant to a Water Enterprise Management Agreement, dated as of November 1, 2001 (the “Management Agreement”), by and between the City and the Authority, the Authority retained the City to manage and operate the Water Enterprise. The term of the Management Agreement is automatically renewed each November 1 for a 12-month period unless terminated earlier by either party. As the manager, the City is paid a management fee equal to the actual costs and direct overhead of the City incurred in connection with the management and operation of the Water Enterprise, which management fee constitutes Direct Waster Costs. Accordingly, the City’s Water Department continues to manage and operate the Water Enterprise.

The Water Department is subject to the general control of the City Council and is under the direct control of the Water Division Manager and the Public Works Director of the City, within the Department of Public Works. The Finance and Public Works Departments of the City monitor and review the financial and operating condition of the Water Enterprise on a regular basis.

The City currently has 26.5 employees assigned directly to the Water Enterprise. The City has historically maintained a positive, cooperative relationship with the Service Employees’ International Union leadership and members, and actively supports employee participation in the City’s safety programs including providing for purchase of safety equipment and the services of a professional safety consultant.

*Chris Castillo*, Water Division Manager, has been with the City since 2002. He has lead and assisted in overall planning, organizing, and managing water utility operations. This includes hiring of consultants, managing consultant task orders and plan review. He works closely with engineering staff on the capital improvement project program and takes the lead in representing the City at regional water management meetings. Mr. Castillo is a graduate of the University of La Verne with a bachelor’s degree in Organizational Management, and is a State Certified Distribution 5 Operator and Water Treatment 2 Operator.

*Jackie Acosta* is the Director of Administrative Services for the City. She started with the City in early 2015. She has a Bachelor's Degree in Accounting and a Master's Degree in Finance. She has been working in local government for over 30 years, with over 20 years as a Director of Finance/Administrative Services.

### **Regional Management**

The Water Enterprise is located in an adjudicated ground water basin, the Central Groundwater Basin. The court retains jurisdiction to assure a balanced Central Basin aquifer through a judgment awarding groundwater pumping rights to water producers, and the court-appointed Watermaster, the Water Replenishment District of Southern California ("WRD"), assists the court in the administration and enforcement of the judgment. Pursuant to the Third Amended Judgment, the Water Enterprise owns annual pumping rights of 11,183 AF of water.

WRD is the largest groundwater agency in the State, managing and protecting local groundwater resources for four million residents, including the Central and West Coast Groundwater Basins. Prior to the formation of WRD in 1959, unregulated and unmanaged over-pumping caused many water wells to go dry. Along the coastline, groundwater levels dropped below sea level, allowing the salty ocean water to seep into and contaminate the freshwater aquifers. WRD protects the basins through artificial groundwater replenishment, ensuring that aquifers maintain healthy levels. WRD further protects the basins from seawater intrusion by injecting water into wells along the coastline to keep the ocean from further contaminating the fresh groundwater aquifers. Finally, WRD routinely monitors the groundwater to ensure the quality meets all health standards. WRD's service area covers a 420-square-mile region of southern Los Angeles County, including 43 cities. WRD manages 250,000 acre-feet (82 billion gallons) of groundwater annually which accounts for approximately half of the region's water supply. WRD completed the Albert Robles Center (Treatment Facility) which replaced the 21,000 AF of imported water used annually to replenish the groundwater. The cost of providing programs, services and capital projects by WRD for fiscal year 2019-20 is expected to be almost \$78 million. The replenishment assessment charged by WRD is calculated by dividing the costs of service with the estimated total groundwater to be pumped. For fiscal year 2019-20, the replenishment assessment is \$365/AF of groundwater pumped, or for the Water Enterprise, approximately \$3,271,000. Prior year replenishment assessment rates have been \$268/AF for 2014-15, \$283/AF for 2015-16, \$297/AF for 2016-17, \$318/AF for 2017-18, and \$339/AF for 2018-19.

Established in 1952, Central Basin Municipal Water District ("CBMWD") is a water wholesaler that provides imported water to forty retail water providers and one water wholesaler including: cities, mutual water companies, investor-owned utilities and private companies in southeast Los Angeles County. CBMWD serves 1.6 million people from 24 cities and unincorporated areas in southeast Los Angeles and is governed by an eight member board. CBMWD is a member of, and purchases imported water from, MWD. CBMWD charges the Water Enterprise a meter capacity charge for its two MWD interconnections available for emergency purposes. The cost for the meter capacity charge is \$117 per cfs. The Water Enterprise is allocated a total of 30 cfs capacity resulting in a cost of \$3,510 per month or \$42,120 annually. The Water Enterprise also purchases recycled water through CBMWD and spends approximately \$165,000 annually. Beginning in October 2019, CBMWD will charge a meter charge rate of \$2 per meter. The Water Enterprise currently has 14,422 meters which results in an additional annual cost of \$28,844.

### **Local Water Production**

The Authority has relied on its own groundwater wells and adjudicated water rights for water supply exclusively since 1990, but has the ability to purchase water from MWD in the event shortages occur. Presently, the City is allocated 11,183 acre feet/year from the Central Groundwater Basin and its production

through July 31, 2019 was 4,981 acre feet. The following table shows local water production from the Water Enterprise wells over the past ten years for delivery to the Water Enterprise customers.

**TABLE 1  
WATER ENTERPRISE  
LOCAL WATER PRODUCTION**

**QUANTITIES IN ACRE-FEET<sup>(1)</sup>**

<b>CALENDAR YEAR</b>	<b>FROM LOCAL WELLS</b>
2010	8,336
2011	8,644
2012	8,149
2013	8,345
2014	8,080
2015	7,729
2016	7,464
2017	7,453
2018	8,161
2019*	4,981

<sup>(1)</sup> 1 Acre Foot - 43,560 Cubic Feet -100 Cubic Foot Billing Units - 325,850 Gallons

\* through 7/31/19.

Source: City of South Gate.

The City currently leases 3,000 AF of its unused pumping right allocation to the City of Cerritos and 30 AF to Rockview Dairies, Inc. for \$190 per AF.

### Customers and Revenues

The Authority's water customer base is stable and neither significant growth nor attrition is expected in the future. The Authority had the following number of water system connections:

**TABLE 2  
WATER ENTERPRISE  
NUMBER OF CONNECTIONS BY CLASS OF CUSTOMERS  
(As of June 30)**

	2015	2016	2017	2018	2019
Single Family	9,155	9,206	9,217	9,251	<u>9,241</u>
Multi Family	3,588	3,578	3,567	3,560	<u>3,549</u>
Commercial	1,349	1,360	1,247	1,357	<u>1,357</u>
Industrial	77	75	72	79	<u>74</u>
Other	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>10</u>
<b>Total</b>	<b>14,176</b>	<b>14,226</b>	<b>14,210</b>	<b>14,254</b>	<b>14,231</b>

Source: City of South Gate

The following table shows the water revenues generated by the various class of customers for each of the prior three fiscal years. These amounts represent billed amounts and therefore do not match amounts shown in the Authority's audited financial statements, which include accrual adjustments.

**TABLE 3**  
**WATER ENTERPRISE**  
**WATER REVENUES GENERATED BY CLASS OF CUSTOMERS**  
(As of June 30)

	2017	%	2018	%	2019	%
Single Family	\$ 6,914,703	36.62%	\$ 7,208,845	36.91%	<u>\$6,950,554</u>	<u>36.43%</u>
Multi Family	6,741,638	35.70	6,814,202	34.89	<u>6,669,044</u>	<u>34.95</u>
Commercial	4,138,067	21.91	4,471,341	22.89	<u>4,406,945</u>	<u>23.10</u>
Industrial	1,071,738	5.68	1,020,079	5.22	<u>1,040,303</u>	<u>5.45</u>
Other (Reclaim)	<u>16,712</u>	<u>0.09</u>	<u>18,457</u>	<u>0.09</u>	<u>13,827</u>	<u>0.07</u>
<b>Total</b>	<b>\$18,882,858</b>	<b>100.00%</b>	<b>\$19,532,924</b>	<b>100.00%</b>	<b>\$19,080,673</b>	<b>100.00%</b>

Source: City of South Gate

### Billings and Collections

Accounts are billed on a monthly basis. Bills are due and payable upon receipt and become delinquent 20 days after the bill date. A final notice assessing a late fee (currently \$6.81) is mailed approximately 34 days from the bill date. Penalties of \$36.77 are assessed on all delinquencies. Meters are disconnected 45 days after the bill date. The Authority is experiencing an average of 175 meter disconnections per month. However, almost all of the meters are reconnected for a fee of \$204.28 plus past due amounts.

During the last two fiscal years, delinquency rates have averaged approximately 14.1% with 30 days being the average number of days accounts are delinquent. Substantially all of the delinquent accounts are eventually paid. The Authority has not written off any receivables as uncollectable in the past two fiscal years.

### Rates and Charges

All water accounts are billed a monthly minimum charge. The minimum bill charge includes 4 units of water. Each unit of water flow is equal to 100 cu. ft. (ccf). Upon exceeding 4 units of water, the monthly minimum bill charge is eliminated and charges are based on the monthly water usage charge. The current rate structure has been in place since July 15, 2015.

**TABLE 4**  
**WATER ENTERPRISE**  
**RATES AND CHARGES**

Customer Class Minimum Bill (Includes 4 ccf)	Current Charge	Customer Class Water Usage (Exceeds 4 ccf)	Current Charge \$/100 ccf
Residential	\$26.04	Residential	\$5.98
Commercial/Industrial	26.04	Commercial/Industrial	6.31
Outside City	26.04	Outside City	7.18
Recycled Water	13.47	Recycled Water	3.98

Source: City of South Gate

The following table shows the rate comparison of neighboring utilities for a typical resident using 11 ccf as of July 31, 2019. Using current rates, Authority’s total charge would equal \$65.78. See “THE WATER ENTERPRISE – Rates and Charges.”

**TABLE 5  
WATER ENTERPRISE  
COMPARISON RATES  
SINGLE FAMILY RESIDENTIAL WATER USE  
(Based on 11 HCF monthly usage)**

<u>Water Purveyor</u>	<u>Monthly Bill</u>
Liberty Utilities	\$102.04
California Water Services (East LA District)	83.41
City of Norwalk	76.53
Golden State Water <sup>(1)</sup>	71.11
City of Compton	65.90
<b>South Gate Utility Authority</b>	<b>65.78</b>
City of Lakewood	58.60
City of Pico Rivera	51.42
City of Santa Fe Springs	47.27
City of Downey	43.76

<sup>(1)</sup> Provides service for the portions of the following cities: Bell Gardens, Bell, Norwalk, Paramount, Lakewood, Santa Fe Springs and South Gate.

*Source: City of South Gate*

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**Ten Largest Customers**

The following table lists the ten largest customers of the Water Enterprise in terms of annual usage and charges.

**TABLE 6  
WATER ENTERPRISE  
TEN LARGEST CUSTOMERS  
(as of [September 30, 2019])**

	<b>Customer</b>	<b>Description</b>	<b>Annual Usage *</b>	<b>Value of Annual Usage<sup>(1)</sup></b>	<b>% of Total Usage</b>
1.	Saputo Cheese USA Inc	Dairy Production and Wholesale Distrib.	87,750	\$ 553,703	2.89%
2.	Schultz Steel Co.	Steel Manufacturing	26,393	166,540	0.87
3.	Koos Manufacturing Co.	Clothing Manufacturer/Wholesale Distrib.	16,363	103,251	0.54
4.	Omni Foods	Wholesale Food Distributor	15,496	97,780	0.51
5.	Medico Professional Linen Services	Medical Linen Rental and Laundry Serv.	15,092	95,231	0.50
6.	Thunderbird Villas Mobile Home Park	Residential Mobile Home Park	13,544	85,463	0.45
7.	South Gate Pacific Associates	Property Management Services	12,786	80,680	0.42
8.	LAUSD - Southeast High School	Public School	11,903	75,108	0.39
9.	Win Soon Inc.	Beverage/Food Manufacturing	11,642	73,461	0.38
10.	LAUSD - South Gate High School	Public School	11,113	70,123	0.37
		<b>Total</b>	<b>222,082</b>	<b>\$1,401,337</b>	<b>7.32%</b>
		<b>Total Consumption</b>	<b>3,034,383</b>		

\* Note: Annual usage in units. One unit equals 100 cubic feet or 748 gallons.

<sup>(1)</sup> Total amount represents [7.34]% of total water sales revenue of the Water Enterprise and 7.32% of the water usage.

Source: City of South Gate

**Water Recycling**

Water recycling is the reuse of treated wastewater for non-potable (non-drinking) purposes, including industrial uses and irrigation for public landscaping, such as medians, parks and golf courses. Using recycled water can increase the availability of potable water supplies.

The City does not own or operate any water recycling facilities. The City purchases recycled water from the Central Basin Municipal Water District (“CBMWD”), which is offered to industrial users at a 15 percent discount. CBMWD obtains recycled water from the San Jose Creek Water Reclamation Plant in Whittier and the Los Coyotes Water Reclamation Plant in Cerritos, which are owned and operated by the Los Angeles County Sanitation District (“LACSD”). The City is a member agency with the LACSD. LACSD constructs, operates, and maintains facilities to collect, treat, recycle, and dispose of residential, commercial, and industrial wastewater.

From 2010 to 2019, the City purchased 3,417 AF of recycled water from the CBMWD. The City itself uses recycled water for irrigation in Hollydale Park and Circle Park. There are also two carwash facilities in the City that recycle their own water. CBWMD operates a recycled water pipeline on Atlantic Avenue that has enough capacity to provide for most of the industrial uses in that area, but despite the reduced cost the potential customers have not been motivated to use this resource.

## Capital Improvement Plan

As shown in Table 7, the Water Enterprise's Water Master Plan, dated June 28, 2019, shows expenditures totaling \$34.21 million for the Five-Year Capital Improvement Plan for fiscal years 2020 through 2024. The major projects include ongoing water main and meter replacement, chlorination system repairs and upgrades and construction of a new well. As capital projects are identified, various financing strategies including long term debt, grants and pay-as-you-go will be analyzed.

The City currently intends to finance its first year of the Capital Improvement Program with a mix of bond proceeds, developer impact fees, and available revenues on a pay-as-you-go basis.

The following table displays projects planned to be funded during the next five fiscal years.

**TABLE 7  
WATER ENTERPRISE  
FIVE YEAR CAPITAL IMPROVEMENT PROGRAM SUMMARY**

Description	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Water Main Replacement Program		\$1,000,000	\$3,000,000	\$4,100,000	\$4,100,000	\$12,200,000
Service Line Replacement Program	\$1,000,000					1,000,000
AMI Meter Replacement Project	500,000	3,500,000	4,000,000	50,000		8,050,000
Well Meter Replacement Project			20,000	20,000	20,000	60,000
Citywide Backflow System Upgrades				300,000		300,000
Upgrades to MWD Interties	50,000					50,000
Miscellaneous Water Main Repairs	50,000	50,000	50,000	50,000	50,000	250,000
GIS Upgrades	20,000	20,000	20,000	20,000	20,000	100,000
Citywide Valve Turning Project		300,000				300,000
Chlorination System Repairs/Upgrades	3,300,000					3,300,000
Tank Cathodic Protection		100,000	100,000			200,000
External Recoating and Logos – 7 tanks	750,000	750,000				1,500,000
Salt Lake Tank Blight Mitigation	400,000					400,000
Seismic Upgrades to Tanks		500,000		500,000		1,000,000
Abandonment of Wells Nos. 13, 22 and 23	200,000					200,000
Well No. 28 Rehabilitation				200,000		200,000
Construction of New Well No. 30	2,000,000	3,000,000				5,000,000
Recycled Water Retrofits	20,000	20,000	20,000	20,000	20,000	100,000
<b>TOTAL CAPITAL PROGRAM</b>	<b>\$8,290,000</b>	<b>\$9,240,000</b>	<b>\$7,210,000</b>	<b>\$5,260,000</b>	<b>\$4,210,000</b>	<b>\$34,210,000</b>

Source: City of South Gate.

## Water Enterprise Outstanding Debt

Following the Closing Date of the Bonds, the only debt of the Water Enterprise with a first lien on the Net Water Revenues of the Water Enterprise will be the Bonds. The Water Enterprise does have existing obligations that are subordinate to the Bonds as described below.

*Lease Agreement.* The Authority leased the Water Enterprise from the City pursuant to the Lease Agreement for a total rental of \$105,334,004.44 for the use of the Water Enterprise, which amount represents the replacement value of the Water Enterprise as determined by valuation consultant, plus net current assets of the Water Enterprise, as of June 30, 2001. The Lease Agreement expires on December 1, 2056, and there are no provisions for early reversion of the Water Enterprise to the City prior to payment in full of the Bonds. The Authority agrees to pay the City from surplus Water Enterprise revenues amounts determined by the City by resolution upon adoption of its annual budget.

To date, the Authority has made two upfront payments in the amounts of \$21,985,000 and \$6,400,000, for total upfront rental payments of \$28,385,000, plus annual payments \$1,430,156 beginning in fiscal year 2006, for total annual payments of \$20,633,289, toward the total rental due under the Lease Agreement, leaving a balance of \$56,315,715.

The lease payment obligations of the Authority under the Lease Agreement are subordinate to the debt service payment obligations of the Authority under the Bonds.

#### **Water Enterprise Reserve Policy**

Within the City's recently adopted Debt Management Policy, the City is required to maintain for the Water Enterprise, a minimum reserve level for operations of six months operations and maintenance expenses based on the latest fiscal year's audited financial statements before it may use surplus Water Enterprise revenues. The Water Enterprise currently maintains reserves of \$ \_\_\_\_\_, excess of its required minimum reserve under the Indenture, which is calculated at approximately \$6.05 million for fiscal year 2019-20.

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## Historical Operating Results and Debt Service Coverage

The following tables set forth historical operating results and debt service coverage of the Water Enterprise for the five fiscal years 2013-14 through 2017-18 are derived from the audited financial statements of the City for each respective fiscal year ending June 30.

**TABLE 8  
WATER ENTERPRISE  
HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE  
FISCAL YEARS 2013-14 THROUGH 2017-18**

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
<b>Operating Revenues:</b>					
Sales and service charges	\$17,254,964	\$18,279,059	\$19,730,062	\$19,176,084	\$19,573,252
Miscellaneous	298,100	529,092	794,324	544,344	1,199,080
<b>Total Operating Revenues</b>	<b>17,553,064</b>	<b>18,808,151</b>	<b>20,524,386</b>	<b>19,720,428</b>	<b>20,772,332</b>
<b>Operating Expenses:</b>					
Personnel services	3,045,995	2,024,402	2,233,601	2,751,145	3,742,875
Utilities	3,045,995	2,827,191	576,292	546,197	640,149
Contractual services	436,062	483,930	3,518,334	3,267,294	3,838,891
Administrative services	2,835,178	2,771,092	2,743,903	2,292,442	2,310,984
Repair and maintenance	170,033	149,856	184,678	115,895	147,533
Supplies	337,409	362,840	408,541	386,701	281,540
Depreciation expense	569,219	1,080,537	1,111,705	1,140,055	1,132,841
<b>Total Operating Expenses</b>	<b>9,536,716</b>	<b>9,699,848</b>	<b>10,777,054</b>	<b>10,499,729</b>	<b>12,094,813</b>
<b>Operating Income (Loss)</b>	<b>8,016,348</b>	<b>9,108,303</b>	<b>9,747,332</b>	<b>9,220,699</b>	<b>8,677,519</b>
<b>Nonoperating Revenues (Expenses)</b>					
Interest revenue	114,634	123,427	181,377	237,530	202,144
Interest expense	(2,873,888)	(2,694,338)	(2,360,620)	(2,254,107)	(2,141,005)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(2,759,254)</b>	<b>(2,570,911)</b>	<b>(2,179,243)</b>	<b>(2,016,577)</b>	<b>(1,938,861)</b>
<b>Income (Loss) Before Transfers</b>	<b>5,257,094</b>	<b>6,537,392</b>	<b>7,568,089</b>	<b>7,204,122</b>	<b>6,738,658</b>
Transfers in	203,595	203,595	1,645,532	1,582,969	203,595
Transfers out	(94,895)	-	(375,820)	(65,132)	(6,400)
<b>Changes in Net Position</b>	<b>5,365,794</b>	<b>6,740,987</b>	<b>8,837,801</b>	<b>8,721,959</b>	<b>6,935,853</b>
<b>Net Position:</b>					
Beginning of year	(15,804,472)	(10,438,678)	(6,383,313)	2,454,488	11,176,447
Restatements		(2,685,622)			
Beginning of year, as restated		(13,124,300)			
Changes in net position	5,365,794	6,740,987	8,837,801	8,721,959	6,935,853
End of Fiscal Year	(10,438,678)	(6,383,313)	2,454,488	11,176,447	18,112,300
<b>Net Revenues</b>	<b>\$8,700,236</b>	<b>\$10,312,267</b>	<b>\$11,043,950</b>	<b>\$10,598,284</b>	<b>\$10,285,803</b>
<b>Annual Debt Service<sup>(1)</sup></b>	<b>\$2,785,080</b>	<b>\$2,933,205</b>	<b>\$2,933,205</b>	<b>\$2,927,055</b>	<b>\$2,928,055</b>
<b>Debt Coverage Ratio</b>	<b>3.12</b>	<b>3.52</b>	<b>3.77</b>	<b>3.62</b>	<b>3.51</b>
Cash & Cash Equiv. - beginning of year	\$14,553,425	\$23,355,827	\$26,391,850	\$24,886,458	\$27,077,153
Cash & Cash Equiv. - end of year <sup>(2)</sup>	\$23,355,827	\$26,391,850	\$24,886,458	\$27,077,153	\$31,485,486

<sup>(1)</sup> Reflects only portion of the 2001 Bonds allocable to the Water Enterprise and the 2012 Bonds.

<sup>(2)</sup> No assurance can be given that these balances will be maintained as current levels. The Authority may transfer any of such funds to the City as lease payments under the Lease Agreement. See "INTRODUCTION – The Water Enterprise" for a description of the Lease Agreement.

Source: City of South Gate

**TABLE 9**  
**STATEMENT OF NET POSITION**  
**FISCAL YEARS 2013-14 THROUGH 2017-18**

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and investments	\$11,899,902	\$18,369,204	\$22,442,213	\$20,811,639	\$25,500,291
Receivables:					
Accounts	3,350,071	2,981,241	3,374,970	3,754,169	3,523,074
Accrued interest	6,883	13,509	18,347	45,254	107,447
Prepaid items	-	6,727	3,000	1,778	2,500
Prepaid bond insurance	332,448	317,994	303,540	289,086	274,632
Due from other funds				2,122	1,650
<b>Total Current Assets</b>	<b>15,589,304</b>	<b>21,688,675</b>	<b>26,142,070</b>	<b>24,904,048</b>	<b>29,409,594</b>
<b>Noncurrent Assets:</b>					
<b>Restricted:</b>					
Cash and investments	14,491,948	6,517,254	6,099,205	6,265,514	5,985,195
Capital assets:					
Non-depreciable assets	-	-	9,940,964	17,975,777	18,192,277
Depreciable assets, net of accumulated depreciation	25,246,234	24,940,275	18,593,515	17,453,460	17,520,166
Total capital assets, net	25,246,234	24,940,275	28,534,479	35,429,237	35,712,443
<b>Total Noncurrent Assets</b>	<b>39,738,182</b>	<b>31,457,529</b>	<b>34,633,684</b>	<b>41,694,751</b>	<b>41,697,638</b>
<b>TOTAL ASSETS</b>	<b>55,327,486</b>	<b>53,146,204</b>	<b>60,775,754</b>	<b>66,598,799</b>	<b>71,107,232</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred charge on refunding of debt	251,259	219,852	188,445	157,038	125,631
Deferred related to pensions	-	195,367	237,868	1,612,521	1,011,273
<b>Total Deferred Outflows of Resources</b>	<b>251,259</b>	<b>415,219</b>	<b>426,313</b>	<b>1,769,559</b>	<b>1,136,904</b>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts payable	1,010,852	883,272	1,942,800	1,157,998	1,070,965
Accrued liabilities	77,322	85,816	28,810	41,347	
Accrued interest	384,663	384,663	382,513	380,313	
Deposits payable	2,111,544	2,232,887	2,200,791	2,293,564	2,118,147
Retentions payable	52,907	59,447	200,335	498,421	6,192
Compensated absences	157,410	122,068	18,846	21,819	21,819
Bonds payable	1,595,000	1,600,000	1,663,569	1,673,569	1,683,569
<b>Total Current Liabilities</b>	<b>5,389,698</b>	<b>5,368,153</b>	<b>6,437,664</b>	<b>6,067,031</b>	<b>5,324,741</b>
<b>Noncurrent Liabilities:</b>					
Advances from other funds	18,336,246	10,705,028	9,810,123	8,870,474	7,883,841
Compensated absences	47,887	85,578	226,156	292,014	274,917
Bonds payable	42,243,592	40,940,123	39,523,862	38,103,152	36,615,422
Aggregate net pension liability	-	2,115,925	2,490,672	3,324,978	3,907,510
<b>Total Noncurrent Liabilities</b>	<b>60,627,725</b>	<b>53,846,654</b>	<b>52,050,813</b>	<b>50,590,618</b>	<b>48,681,690</b>
<b>TOTAL LIABILITIES</b>	<b>66,017,423</b>	<b>59,214,807</b>	<b>58,488,477</b>	<b>56,657,649</b>	<b>54,006,431</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred related to pensions	-	729,929	259,102	534,262	125,405
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>729,929</b>	<b>259,102</b>	<b>534,262</b>	<b>125,405</b>
<b>NET POSITION</b>					
Net investment in capital assets	25,246,234	24,940,275	(18,177,537)	(93,353)	1,636,176
Restricted for capital projects	8,425,070	2,040,257			
Restricted for debt service	6,066,878	6,517,254	2,002,112	2,168,421	1,888,102
Restricted for OPEB	-	-	-	-	-
Unrestricted (deficit)	(50,176,860)	(39,881,099)	18,629,913	9,101,379	14,588,022
<b>TOTAL NET POSITION</b>	<b>(10,438,678)</b>	<b>(6,383,313)</b>	<b>2,454,488</b>	<b>11,176,447</b>	<b>18,112,300</b>

Source: City of South Gate Audited Financial Statements for fiscal years 2013-14 through 2017-18.

### **Project Operating Results and Debt Service Coverage**

The following tables set forth projected operating results and debt service coverage of the Water Enterprise for the five fiscal years 2019-20 through 2023-24. Certain assumptions have been made by the Authority in the development of the projections and include the following:

- Revenues are assumed to increase by 1% annually, with no expected rate increase.
- Full-time salaries are assumed to increase by 1% annually, with part-time salaries increasing by 7-8% per year.
- Water Enterprise CalPERS retirement benefits are assumed to increase 5-6% per year.
- Water Enterprise CalPERS unfunded liability payment is assumed to increase 13% per year.
- The WRD replenishment assessment is assumed to increase by 8% per year.
- Other operating costs are assumed to increase by 1% annually.

While the Authority believes its assumptions are reasonable, there can be no assurance that the assumed conditions will in fact occur. The Authority's projections may be affected (favorably or unfavorably) by unforeseen future events. Therefore, the results projected cannot be assured.

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**TABLE 10**  
**WATER ENTERPRISE**  
**PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE**  
**Fiscal Years 2018-19 through 2023-2024**

	<i>Estimated</i> 2018-19	<i>Budgeted</i> 2019-20	2020-21	<i>Projected</i>		2023-24
				2021-22	2022-23	
<b>Operating Revenue</b>						
Charges for Services	\$19,297,828	\$20,056,437	\$19,927,089	\$20,025,187	\$20,123,775	\$20,222,856
Water Rights	575,700	570,000	570,000	570,000	570,000	570,000
Miscellaneous	<u>25,507</u>	<u>121,000</u>	<u>118,000</u>	<u>118,000</u>	<u>118,000</u>	<u>118,000</u>
<b>Total Operating Revenues</b>	19,899,035	20,747,437	20,615,089	20,713,187	20,811,775	20,910,856
<b>Nonoperating Revenues</b>						
Interest Income	952,002	205,000	475,000	479,000	483,040	487,120
Other (Transfers-In)	<u>271,404</u>	<u>203,595</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Nonoperating Revenues</b>	1,223,406	408,595	475,000	479,000	483,040	487,120
<b>Gross Revenues</b>	<b>21,122,441</b>	<b>21,156,032</b>	<b>21,090,089</b>	<b>21,192,187</b>	<b>21,294,815</b>	<b>21,397,976</b>
<b>Operating Expenses</b>						
Personnel Services	3,283,201	3,497,629	3,616,834	3,731,273	3,872,902	4,003,714
Utilities	709,256	701,977	745,778	783,035	822,154	863,229
Contractual Services	992,106	1,602,625	1,052,350	1,079,862	1,109,120	1,138,235
Water District Purchases	2,995,777	3,271,000	3,532,680	3,815,294	4,120,518	4,450,159
Administrative Services	2,320,142	2,410,926	2,471,945	2,495,537	2,519,797	2,544,217
Depreciation	1,285,050	1,133,000	1,310,751	1,336,966	1,363,705	1,390,979
Repairs and Maintenance	140,773	240,705	293,052	295,423	297,817	300,235
Supplies & Services	<u>367,577</u>	<u>419,860</u>	<u>439,769</u>	<u>443,816</u>	<u>447,980</u>	<u>452,110</u>
<b>Total Operating Expenses</b>	<b>12,093,882</b>	<b>13,277,722</b>	<b>13,463,159</b>	<b>13,981,206</b>	<b>14,553,993</b>	<b>15,142,878</b>
Less: Depreciation	<u>(1,285,050)</u>	<u>(1,133,000)</u>	<u>(1,310,751)</u>	<u>(1,336,966)</u>	<u>(1,363,705)</u>	<u>(1,390,979)</u>
Operating Expenses less Dep.	<b>10,808,832</b>	<b>12,144,722</b>	<b>12,152,408</b>	<b>12,644,240</b>	<b>13,190,288</b>	<b>13,750,899</b>
<b>Net Revenues</b>	<b>10,313,609</b>	<b>9,011,310</b>	<b>8,937,681</b>	<b>8,547,947</b>	<b>8,104,527</b>	<b>7,646,077</b>
<b>Operating Revenue</b>	<b>\$19,297,828</b>	<b>\$20,056,437</b>	<b>\$19,927,089</b>	<b>\$20,025,187</b>	<b>\$20,123,775</b>	<b>\$20,222,856</b>
2012 Bonds Debt Service	\$1,747,250	\$1,001,225	-	-	-	-
2019 Bonds Debt Service <sup>(1)</sup>	-	275,631	2,503,343	2,506,292	2,502,777	2,507,466
2001 Bonds <sup>(2)</sup>	<u>1,181,405</u>	<u>1,181,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Annual Debt Service	<b>\$2,928,655</b>	<b>\$2,458,261</b>	<b>\$2,503,343</b>	<b>\$2,506,292</b>	<b>\$2,502,777</b>	<b>\$2,507,466</b>
<b>Coverage Ratio</b>	<b>3.52</b>	<b>3.66</b>	<b>3.57</b>	<b>3.41</b>	<b>3.24</b>	<b>3.05</b>
Maximum Annual Debt Service	\$3,132,450	\$3,132,450	\$2,507,466	\$2,507,466	\$2,507,466	\$2,507,466
<b>MADS Coverage Ratio</b>	<b>3.29</b>	<b>2.88</b>	<b>3.56</b>	<b>3.41</b>	<b>3.23</b>	<b>3.05</b>
<b>Beginning Cash</b>	<b>\$25,500,291</b>	<b>\$31,455,089</b>	<b>\$28,102,815</b>	<b>\$24,198,320</b>	<b>\$21,866,466</b>	<b>\$20,465,686</b>
Plus net cash from operations	7,384,954	6,367,882	6,765,661	6,298,302	5,289,376	5,401,734
Less capital expenditures	-	(8,290,000)	(9,240,000)	(7,210,000)	(5,260,000)	(4,210,000)
Less payment to City General Fund <sup>(4)</sup>	<u>(1,430,156)</u>	<u>(1,430,156)</u>	<u>(1,430,156)</u>	<u>(1,430,156)</u>	<u>(1,430,156)</u>	<u>(1,430,156)</u>
<b>Ending Cash</b>	<b>\$31,455,089</b>	<b>\$28,102,815</b>	<b>\$24,198,320</b>	<b>\$21,866,466</b>	<b>\$20,465,686</b>	<b>\$20,227,264</b>

<sup>(1)</sup> Preliminary; subject to change.

<sup>(2)</sup> Reflects only portion of the 2001 Bonds allocable to the Water Enterprise (85.3%). The remaining portion is allocated to the wastewater enterprise.

<sup>(3)</sup> The Water Enterprise is obligated to loan funds to the wastewater enterprise to make up any shortfall to the extent funds are available. None of the Net Water Revenues are pledged to make such loans.

<sup>(4)</sup> Assumptions include that the Authority transfers from surplus funds \$1,430,156 annually to the City as lease payments under the Lease Agreement. See "INTRODUCTION – The Water Enterprise" for a description of the Lease Agreement.

Source: City of South Gate

**Insurance**

The City is self-insured for general, automobile, public liability and worker’s compensation claims. The City has purchased an excess insurance policy for worker compensation claims from Safety National Casualty Corporation (“Safety National”). Under this policy, Safety National covers all workers’ compensation claim expenses over \$1,000,000 per claim for safety and over \$750,000 for non-safety. An internal service fund is used to account for the collection of premiums from various City departments related to the amount of workers’ compensation policy premium paid and general claims liabilities. Premiums assessed for general claim liabilities are established based on historical claims experience.

The City is a member of the Independent Cities Risk Management Authority (“ICRMA”), a joint powers authority formed to provide liability insurance coverage for independent cities. Under the terms of the agreement with the ICRMA, the City is insured for losses above \$250,000 per claim. For the past three years, claim payments have not exceeded the amount of applicable insurance coverage. Claims liability of \$14,630,525 was reported in the Self-Insurance Internal Service Fund at June 30, 2018. Claims are reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

[The property damage insurance maintained by the City for all City property also covers the facilities and operations of the Water Enterprise. Property damage insurance is provided by Robert S. Driver and Associates, a commercial carrier. The City currently carries no earthquake insurance.]

**City Retirement Information**

*Employee Retirement Plan.*

*This sub-caption contains certain information relating to the California Public Employees Retirement System (“CalPERS”). Neither the City nor the Authority has independently verified the information provided by CalPERS or makes any representations or expresses any opinion as to the accuracy of the information provided by CalPERS. 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 may be changed in the future. Actuarial assessments will change with the future experience of the pension plans. The City estimates that approximately 7.5% of the net pension liability for the Miscellaneous Plan is allocated to the City’s Water Enterprise.*

General. The City contributes to CalPERS, an agent multiple-employer defined benefit pension plan for miscellaneous employees and a cost-sharing multiple employer defined benefit plan for safety employees. CalPERS acts as a common investment and administrative agent for its participating member employers. 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. Benefit provisions under the plan are established by State statute and City resolution as follows:

	<u>Miscellaneous Plan</u>		<u>Safety Plan</u>	
	Classic	PEPRA	Classic	PEPRA
Hire date	Prior to 1/1/13	On or after 1/1/13	Prior to 1/1/13	On or after 1/1/13
Benefit formula	2.7% @ 55	2.0% @ 62	3.0% @ 50	2.7% @ 55
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement age	Minimum 50	Minimum 50	Minimum 50	Minimum 50
Monthly benefits (% elig. of comp.)	2.0%-2.7%	1.0%-2.5%	2.4%-3.0%	1.426%-2.418%
Required employee contribution rates	8.0%	6.75%	9.0%	12.25%
Required employer contribution rates	18.099%	18.099%	20.23%	12.25%

Participants are eligible for non-industrial disability retirement if becomes disabled and has at least 5 years credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by service.

Industrial disability benefits are not offered to miscellaneous employees. The City provides industrial disability retirement benefit to safety employees. The industrial disability retirement benefit is a monthly allowance equal to 50 percent of final compensation.

CalPERS issues a publicly available financial report, which includes a full description of the pension plan regarding benefit provisions, and assumptions and membership information that can be obtained at <https://www.calpers.ca.gov>. The most recent annual report issued by CalPERS to the City was in July 2019 (the "July 2019 CalPERS Report"). The July 2019 CalPERS Report includes information based on the June 30, 2018 actuarial valuation of assets included therein (the "2018 Actuarial Valuation"). Additional information about the CalPERS Plans can also be found in Note 10 to the City's Audited Financial Statements attached as Appendix B to this Official Statement.

As of June 30, 2018, the City has 245 active employees, 408 transferred or terminated employees, and 344 retired employees and beneficiaries currently receiving benefits for the Miscellaneous Plan.

The City estimates that approximately 7.5% of the net pension liability for the Miscellaneous Plan is allocated to the City's Water Enterprise. The following information is limited to the Miscellaneous Plan. See Note 10 to the City's comprehensive annual financial report, attached hereto as APPENDIX B, for information on the City's Safety Plans.

Annual Payments and Contribution Rates. The schedule below illustrates the 4-year trend of City contributions. The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018/19 were from June 30, 2017 public agency valuations.

**Historical CalPERS Contribution Amounts Miscellaneous Plan**

<u>Measurement Period (ending June 30)</u>	<u>Actuarially determined City Contribution</u>	<u>City Contribution</u>	<u>Deficiency (excess)</u>	<u>Covered-Employee Payroll</u>	<u>Contributions as a % of Covered Payroll</u>
2014	\$1,971,806	\$(1,971,806)	-	\$12,254,729	16.09%
2015	1,947,828	(1,947,828)	-	13,060,655	14.91
2016	2,406,820	(2,406,820)	-	13,452,475	17.89
2017	3,913,282	(3,913,282)	-	13,856,049	28.24
2018	1,413,240	(1,413,240)	-	13,376,058	10.57
2019					

*Source: City of South Gate 2017/18 CAFR.*

Funding Status of Plan. The table below summarizes the funded status of the City's retirement plan as of the most recent actuarial valuation date (June 30, 2018). Additional information regarding the City's employee retirement plan, annual pension costs, the funding status thereof and significant accounting policies related thereto is set forth in Note 10 to the City's comprehensive annual financial report, attached hereto as APPENDIX B.

**CalPERS Funding History Miscellaneous Plan**

<b>Valuation Date (June 30)</b>	<b>Actuarial Accrued Liability (AAL) – Entry Age</b>	<b>Market Value of Assets</b>	<b>(Overfunded) Unfunded AAL</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>(Overfunded) Unfunded AAL as a % of Covered Payroll</b>
2011	\$107,428,940	\$ 86,694,406	\$20,734,534	80.7%	\$11,391,352	182.02%
2012	111,094,309	84,299,373	26,794,936	75.9	12,422,352	215.70
2013	115,711,996	92,664,349	23,047,647	80.1	11,897,795	193.71
2014	127,334,667	106,304,704	21,029,963	83.5	12,308,007	170.86
2015	132,415,056	106,109,873	26,305,183	80.1	13,060,655	201.41
2016	139,768,738	104,374,908	35,393,830	74.7	13,376,058	264.61
2017	150,180,438	114,052,961	36,127,477	75.9	14,526,795	248.70
2018	160,900,786	121,808,156	39,092,630	75.7	14,783,627	264.43

Source: CalPERS annual valuation report dated July 2018.

*PARS.* Effective July 1, 2002, the City established a supplemental retirement plan with the Public Agency Retirement System (“PARS”). The supplemental retirement plan administered by PARS (the “PARS plan”) is an agent multiple-employer defined benefit pension plan. The PARS plan is separated into two tiers. The PARS plan was organized under the authority of the City Council and may be amended by the City Council. Tier one provides for the difference between the 3% at 55 benefits and the 2.7% at 55 benefits for years of service to the City. Tier two provides a monthly lifetime annuity payment to eligible employees in lieu of post- employment health care benefits. Eligibility to receive benefits is set forth in Note 10 to the City’s comprehensive annual financial report, attached hereto as APPENDIX B.

At June 30, 2017, the valuation date, plan membership consisted of 2 active employees, 7 terminated employees and 23 retired employees and beneficiaries. The employer contribution rates for all public employees are determined on an annual basis by the actuary and are effective on the July 1 following notice of a change in the rate. The total plan contributions are determined by an independent pension actuary using information furnished by the City and by PARS. 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. For the measurement period ended June 30, 2018 (the measurement date), the employer’s contribution rate was 11.97% of annual payroll. For the year ended June 30, 2018, the City contributed \$89,262 to the plan. No contributions are required from the employees.

For the measurement period ended June 30, 2018, the City incurred pension income in the amount of \$30,288 for the PARS plan and its net pension liability is \$446,604.

*Post-Retirement Medical Benefits (OPEB).* The City participates in the CalPERS medical program, an agent multiple employer defined benefit healthcare plan administered by CalPERS. CalPERS established the plan under the Public Employee’s Medical and Hospital Care Act (PEMHCA) as of July 1, 1988. Health insurance premiums of the plan are established and amended by the CalPERS Board. The City provides extended health care benefits to eligible employees as required by collective bargaining agreements through a single-employer defined benefit post-employment healthcare plan. Miscellaneous employees, safety employees and top management who retire from the City with a minimum of 20 years of continuous PERS service and at least age 50, are eligible for this benefit.

Employees are eligible for retiree health benefits if they retire from the City on or after age 50 (unless disabled), with five years of service and are eligible for a PERS pension and are enrolled in a

CalPERS retiree health plan. The City pays an administrative fee to CalPERS for retirees enrolled in a PERS health plan for five or more years. For the year ended June 30, 2018, the premiums paid by the city were \$150, \$200, and \$250 per month for miscellaneous employees, top management, and safety employees retired before July 1, 2005 respectively. For safety employees retired after July 1, 2005, the City pays up to the two-party Kaiser rate in effect on July 1, 2005 and increased up to 5% annually for those hired before November 26, 2014 and up to the two-party Kaiser rate in effect on date of retirement for those hired on or after November 26, 2014. The benefits are available only to employees who retire from the City. Membership in the plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation: 298 active employees, 192 retired employees and beneficiaries.

Retirees participating in PEMHCA are responsible for the payment of their medical insurance premiums except that the City contributes the minimum amount provided under Government Code Section 22825 of the Public Employees Medical and Hospital Care Act. The amount contributed by the City during the year ended June 30, 2017 was \$590,635, on a pay-as-you-go basis.

Aggregate net other post-employment benefit (“OPEB”) liability and deferred outflows of resources are as follows:

<b>Deferred outflows of resources:</b>	
Changes of Assumptions	\$ 558,793
Contribution after measurement date	<u>638,564</u>
<b>Total deferred outflows of resources</b>	<b>\$ 1,197,357</b>
<b>Deferred inflows of resources:</b>	
Difference between expected and actual experience	<u>\$ 1,291,284</u>
<b>Total deferred inflows of resources</b>	<b>\$ 1,291,284</b>
<b>Total OPEB liabilities:</b>	
Total OPEB liabilities	<u>\$30,256,302</u>
<b>Total net OPEB liabilities</b>	<b>\$30,256,302</b>

For the year ended June 30, 2018, the City recognized OPEB expense of \$1,118,700 for the City Plan. Net OPEB liability as a percentage of covered payroll is 149.9% (covered payroll is \$20,184,723. Additional information regarding the City’s net OPEB liability, the funding status thereof and significant accounting policies related thereto is set forth in Note 11 to the City’s comprehensive annual financial report, attached hereto as APPENDIX B.

*Defined Contribution Plan.* The City established a defined contribution plan in accordance with Internal Revenue Code Section 401(a) to provide tax deferred payments towards retirement for top management employees. Under this plan, the City will provide a matching payment of up to 50% of the contributions paid by the employee into a 457 deferred compensation plan. For the fiscal year ended June 30, 2018, the City contributed \$17,443 to the plan.

**Investment of Funds**

The City invests its funds in accordance with the City’s Investment Policy, most recently adopted on June 11, 2019. In accordance with Section 53600 et seq. of the California Government Code, idle cash management and investment transactions are the responsibility of the City Treasurer. The City’s Investment Policy sets forth the policies and procedures applicable to the investment of City funds, and designates eligible investments. The Investment Policy sets forth a stated objective, among others, of insuring the safety of invested funds by limiting credit and interest rate risks. Eligible investments are limited to the



Local Agency Investment Fund, which is operated by the California State Treasurer, U.S. Treasury Bills, Notes and Bonds having maturities not greater than 5 years, U.S. Government Agency issues having maturities not greater than 5 years, FDIC insured or fully collateralized certificates of deposit or savings accounts, negotiable certificates of deposit rated A1/P1 or better, repurchase agreements, reverse repurchase agreements, banker's acceptances, county pooled investment funds, corporate notes rated in the top three note categories by two of the three largest nationally-recognized rating services having maturities not greater than 3 years, asset-backed securities rated AAA or the equivalent having maturities not greater than 5 years, municipal bonds rated AAA or AA and insured and commercial paper rated A1/P1 or better, and mutual funds investing in specified securities and obligations. Funds are invested in the following order of priority: (1) safety of principal; (2) liquidity, and (3) return on investment.

The Director of Administrative Services of the City is required to provide a quarterly report to the City Manager and the City Council showing the type of investment, date of maturity, amount invested, current market value, rate of interest, and other such information as may be required by the City Council.

Below is a schedule of the City's cash and investments, totaling \$104,193,800.18, as of June 30, 2019.

City of South Gate  
Schedule of Cash and Investments  
(as of June 30, 2019)

Investment	Amount	Percent of Total
United States Government Obligations	\$38,791,194.95	37.23%
Corporate Bonds	0.00	0.00
U.S. Treasury Bills	986,450.00	0.95
Money Market Fund	10,522.98	0.01
Certificate of Deposit	3,700,000.00	3.55
Local Agency Investment Fund	60,705,632.91	58.26
<b>Total Investments</b>	<b>104,193,800.84</b>	<b>100.00%</b>

*Source: City of South Gate.*

**FINANCIAL STATEMENTS**

Financial information regarding the Water Enterprise for the fiscal year ended June 30, 2018, is set forth in a portion of the City's audited financial statements that is included in APPENDIX B hereto. The City's audited financial statements have been audited by The Pun Group LLP, Santa Ana, California, independent auditors, as stated in their report appearing in APPENDIX B hereto. Approval was not sought or received from such firm for the inclusion of such audited financial statements of the City as APPENDIX B hereto, and no additional work was performed by such firm.

The City is not obligated in any manner to pay principal of or interest on the Bonds or to cure any delinquency or default on the Bonds.

**BOND OWNERS' RISKS**

*PURCHASE OF THE BONDS INVOLVES CERTAIN RISKS. EACH PROSPECTIVE INVESTOR IN THE BONDS IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW WHICH,*

*AMONG OTHERS, COULD AFFECT THE MARKET PRICE OF THE BONDS TO AN EXTENT THAT CANNOT BE DETERMINED. HOWEVER, THIS DOES NOT PURPORT TO BE AN EXHAUSTIVE LISTING OF RISKS AND OTHER CONSIDERATIONS THAT MAY BE RELEVANT TO AN INVESTMENT IN THE BONDS. IN ADDITION, THE ORDER IN WHICH THE FOLLOWING FACTORS ARE PRESENTED IS NOT INTENDED TO REFLECT THE RELATIVE IMPORTANCE OF ANY SUCH RISKS.*

### **Bonds are Limited Obligations**

**NEITHER THE BONDS NOR THE PAYMENT OF THE PRINCIPAL OR ANY PART THEREOF NOR ANY INTEREST THEREON CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE CITY, THE COUNTY OF LOS ANGELES, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, OTHER THAN THE AUTHORITY, AND NONE OF THE CITY, SAID COUNTY, SAID STATE OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY) IS LIABLE THEREFOR.**

### **No Liability of the Authority to the Bond Owners**

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Bonds with respect to the observance or performance by the City of other agreements, conditions, covenants and terms required to be observed or performed by it under any of the Lease Agreement, the Management Agreement, or any related document or with respect to the performance by the Trustee of any duty required to be performed by it under the Indenture.

### **Limitations on Remedies Available to Owners of the Bonds and the Trustee**

The enforceability of the rights and remedies of the Owners of the Bonds and the Trustee, and the obligations incurred by the Authority, the City and the Water Enterprise, may be subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles that may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Water Enterprise serves essential public purposes.

### **Limited Recourse on Default**

If the Authority defaults on its obligations to make debt service payments on the Bonds, the Trustee, on behalf of the Bondholders, has the right to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration, there can be no assurance that the Authority would have sufficient moneys available for payment of the Bonds. As indicated above, the Bonds are without recourse to the Authority, save to the extent of the Net Water Revenues pledged to the payment thereof.

### **Loss of Tax Exemption**

As discussed under the caption "TAX EXEMPTION," interest on the Tax-Exempt Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation, in some cases retroactive to the date of issuance of the Tax-Exempt Bonds, as a result of future acts or

omissions of the Authority or the City in violation of certain covenants contained in the Indenture or the Lease Agreement, respectively. Should such an event of taxability occur, the Tax-Exempt 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, 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 Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Neither the Authority nor the City can assurance that federal tax law will not change while the Tax-Exempt Bonds are outstanding or that any such change will not adversely affect the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes. If the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Tax-Exempt Bonds would be adversely impacted.

### **IRS Examination of Tax-Exempt Bonds**

The Internal Revenue Service has an established program for the examination of tax-exempt bond issues, including both random and targeted examinations. It is possible that the Tax-Exempt Bonds will be selected for examination by the Internal Revenue Service. It is also possible that the market value of the Tax-Exempt Bonds would be affected as a result of such an examination of the Tax-Exempt Bonds (or by an examination of similar bonds).

### **Secondary Market**

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

### **Forecasts**

Although the Authority believes that the projections herein of future operating results of the Water Enterprise are reasonable, there can be no assurance that actual operating results will match the projections due to changes in general economic conditions and similar factors. In addition, the Water Enterprise and economic development within the service area of the City are subject to federal, State and local regulations. There can be no assurance that the Water Enterprise will not be adversely affected by future economic conditions, governmental policies or other factors beyond the control of the City.

### **Water Enterprise Expenses and Collections**

There can be no assurance that the expenses for the Water Enterprise will remain at the levels described in this Official Statement. Changes in technology, energy or other expenses would reduce the Net Water Revenues and could require substantial increases in rates or charges. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand. Although the Authority has covenanted to fix, prescribe, revise and collect rates, fees and charges of the Water Enterprise at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the time necessary to make timely payments with respect to the Bonds.

## **Net Water Revenues; Rate Covenant**

Net Water Revenues are dependent upon the demand for water sales, which can be affected by population factors, more stringent drinking water regulations, or problems with the Water Enterprise. There can be no assurance that water service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for water or significant increase in costs to provide water service could require an increase in rates or charges in order to comply with the Authority's rate covenant in the Indenture. Projections shown herein do not assume rate increases not yet approved.

## **Parity Obligations**

As described in "SECURITY FOR THE BONDS," the Indenture permits the Authority to issue or incur Parity Obligations, its obligations under which would be payable on a parity with the Bonds. In the event of a decline in Net Water Revenues available to the Authority, the existence of Parity Obligations could adversely affect the Authority's ability to pay debt service on the Bonds.

## **Casualty Risk**

Any natural disaster or other physical calamity, including earthquakes, fires, floods, mudslides and other calamities, may have the effect of reducing Gross Water Revenues through damage to the Water Enterprise and/or adversely affecting the economy of the surrounding area. The Lease Agreement requires the Authority to maintain insurance or self-insurance, but only if and to the extent available at reasonable cost from reputable insurers. In the event of total loss of the Water Enterprise, there can be no assurance that insurance proceeds will be adequate to redeem all Outstanding Bonds or that losses in excess of the insured amount will not occur.

There are no significant hills or known faults within the City. The Newport-Inglewood Fault is located about three miles to the southwest, the Whittier-Elsinore Fault is about ten miles to the east, and the San Andreas Fault is located about forty miles to the northeast.

[The City is subject to very minimal flood risk. A small portion of the City is subject to Flood Zone B inundation classification (floods in excess of the 100 year storm level). ]

[The City's Emergency Operations Plan includes a hazard analysis for earthquake, flood, and fire risk required to comply with FEMA requirements for disaster relief funding.]

## **Environmental Regulation**

The allocation of groundwater from the Central Groundwater Basin is managed and regulated by WRD which has set limits on the amount of groundwater which the City may extract in a year. The City's adjudicated allocation from the Central Groundwater Basin is equal to 11,183 AFY. Additionally, the kind and degree of water treatment which is effected through the Water Enterprise is regulated, to a large extent, by the federal government and the State. Treatment standards set forth in federal and State law control the operations of the Water Enterprise and mandate the technology it must use. In the event that the federal government, acting through the Environmental Protection Agency, or the State, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter water quality standards upon the Water Enterprise, the Authority's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or State regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

## **Other Factors**

The Water Enterprise in general has been, or in the future may be, affected by a number of other factors which could impact its financial condition. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (b) legislative changes, voter initiatives, referenda and statewide propositions, (c) acts of terrorism or cyber-terrorism, (d) natural disasters or other physical calamities, in addition to earthquakes discussed above, including, but not limited to, wildfires and floods and (e) changes to the climate, including drought conditions and other climate change factors. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of the Water Enterprise.

The Authority is unable to predict what impact such factors will have on the business operations and financial condition of the Water Enterprise, but the impact could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof.

## **Early Redemption Risk**

Early redemption of all or a portion of the Bonds may occur without premium, if the Authority exercises its right to redeem Bonds, all as provided in the Indenture. See “THE BONDS – Redemption” herein.

## **Investment Risk**

The City administers a pooled investment program of moneys in its funds and accounts, including moneys in for the Water Enterprise. The City has established an investment policy which it believes to be prudently conservative. Nevertheless, the City’s investments will be subject to market fluctuations and other risks over which the City has no control, and which could impair the Authority’s ability to make debt service payments on the Bonds.

## **No Debt Service Reserve**

The Authority has not undertaken to fund any debt service reserve to secure the payment of debt service on the Bonds.

## **California Constitution Article XIIC and Article XIID**

Proposition 218, a state ballot initiative known as the “Right to Vote on Taxes Act” was approved by California voters on November 5, 1996 and, except for certain provisions that became effective on July 1, 1997, became effective on November 6, 1996. Proposition 218 added Article XIIC, entitled “Voter Approval of Local Tax Levies” (“Article XIIC”), and Article XIID, entitled “Assessment and Property Related Fee Reform (“Article XIID”), to the California Constitution. Article XIIC and Article XIID limit the imposition by a local government of “general taxes,” “special taxes,” “assessments” and “fees” or “charges.” The Authority is a local government within the meaning of Article XIIC and Article XIID.

Article XIIC, provides, among other things, that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local fee or charge. This extension of the initiative power is not limited by the terms of Article XIIC to fees and charges imposed after November 6, 1996 and, absent other authority, could result in retroactive reduction in existing fees and charges. Although the terms “fees” and “charges” are not defined in Article XIIC, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Kari Verjil; E.W. Kelley* (July 2006), has stated that there is no basis for excluding from Article XIIC’s authorization any of the fees subject to Article XIID. If fees or charges charged or

collected by the Authority for the Water Enterprise are subjected to the initiative process and the outcome of any initiative proceedings results in a reduction or repeal of such fees or charges, the ability of the Authority to generate revenues sufficient to comply with its covenants under the Indenture may be adversely affected. Furthermore, if voters were to approve an initiative lowering the Authority's water rates or other charges, the Authority would need voter approval before it could change the rate or charge that had been set by initiative. The Authority could, however, increase a charge that was not affected by initiative or to impose an entirely new charge without voter approval.

The California Supreme Court further stated in *Bighorn* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the City will not, in the future, approve an initiative that reduces or repeals local taxes, assessments, fees or charges.

Article XIID prohibits the assessment upon any parcel of property or upon any person "as an incident of property ownership" (defined to exclude fees for the provision of electrical or gas service) by a local government of any tax, assessment, fee or charge except voter-approved ad valorem property taxes and special taxes, fees or charges as a condition of property development, and assessments and "fees or charges for property related services" levied or imposed in accordance with the provisions of Article XIID.

Under Article XIID, revenues derived from a "fee" or "charge" (defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service") may not exceed the funds required to provide the "property-related service" and may not be used for any purpose other than that for which the fee or charge was imposed. Further, the amount of a "fee" or "charge" may not exceed the proportional cost of the service attributable to the parcel, no "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, and no "fee" or "charge" may be imposed for general governmental service where the service is "available to the public at large in substantially the same manner as it is to the property owners."

In addition, in order for a "fee" or "charge" to be imposed or increased, Article XIID provides that, among other things, the parcel upon which a fee or charge is proposed for imposition must be identified, the amount of the fee or charge proposed to be imposed on each such parcel must be calculated, written notice by mail of the proposed fee or charge must be provided to the "record owner" of each identified parcel, and a public hearing must be conducted upon the proposed fee or charge. If written protests against the proposed "fee" or "charge" are presented by a majority of owners of the identified parcels, the fee or charge may not be imposed. The California Supreme Court in *Bighorn* indicated that once a property owner or resident has paid the connection charges and has become a customer of a public water agency, all charges for water delivery incurred thereafter are charges for a property-related service, whether the charge is calculated on the basis of consumption or is imposed as a fixed monthly fee. Accordingly, the imposition or increase of any fee or charge by the Authority for its Water Enterprise will be the subject of such a majority protest. If such a majority protest occurs, the ability of the Authority to generate revenues sufficient to comply with its covenants under the Indenture may be adversely affected.

As a result of the *Bighorn* decision, there can be no assurance that Proposition 218 will not limit the ability of the Authority to impose, levy, charge and collect increased fees and charges for water services.

The Authority has followed the notice, hearing and protest procedures in Article XIID in connection with its water rate increases and plans to follow such notice, hearing and protest procedure in connection with future rate increases.

The Authority is unable to predict how Article XIIC and Article XIID will be interpreted by the courts in the future. Bond Counsel has advised that there can be no assurance that Article XIIC and Article XIID will not limit the ability of the Authority to charge and collect fees and charges for its water service sufficient to enable the Authority to comply with its covenants under the Indenture or that the ability of the Authority to generate revenues sufficient to pay principal and interest on the Bonds will not be adversely affected.

### **Voter Initiatives – State Constitutional Amendment**

California’s voter initiative process allows measures that qualify for the ballot to be approved or disapproved by voters in a State of California statewide election. From time to time initiative measures could be adopted that adversely affect the ability of the Authority to generate Net Water Revenues.

### **FORWARD LOOKING STATEMENTS**

This Official Statement contains certain “forward-looking statements” concerning the Authority’s operations, the Water Enterprise and the operations, performance and financial condition of the City, including their future economic performance, plans and objectives and the likelihood of success in developing and expanding. These statements are based upon a number of assumptions and estimates that are subject to significant uncertainties, many of which are beyond the control of the Authority and City. The words “may,” “would,” “could,” “will,” “expect,” “anticipate,” “believe,” “intend,” “plan,” “estimate” and similar expressions are meant to identify these forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements.

### **UNDERWRITING**

Raymond James & Associates, Inc. (the “Underwriter”) expects to purchase the Bonds at the purchase price of \$ \_\_\_\_\_, representing the aggregate principal amount of the Bonds, [plus/less original issue premium/discount of \$ \_\_\_\_\_] and less an Underwriter’s discount of \$ \_\_\_\_\_ and to re-offer the Bonds pursuant to the terms and conditions set forth on the cover page of this Official Statement. The Underwriter will be obligated to take and pay for all of the Bonds if any Bond is purchased.

The Underwriter intends to offer the Bonds to the public initially at the respective yields set forth on the inside cover page of this Official Statement, which yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers.

### **CERTAIN LEGAL MATTERS**

Legal matters in connection with the authorization, execution, delivery and sale of the Bonds are subject to the approval of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. The

form of the approving opinion of Bond Counsel is attached hereto as Appendix F. Norton Rose Fulbright US LLP is also serving as Disclosure Counsel to the Authority. Certain legal matters will be passed upon for the Authority by Raul F. Salinas, City Attorney.

## TAX EXEMPTION

### Tax-Exempt Bonds

*Tax-Exemption.* The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Tax-Exempt Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Tax-Exempt Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Tax-Exempt Bonds. Each of the Authority and the City has covenanted to maintain the exclusion of the interest on the Tax-Exempt Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the covenants mentioned herein, interest on the Tax-Exempt Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Tax-Exempt Bonds is not treated as an item of tax preference for purposes of computing the alternative minimum tax.

Pursuant to the Indenture and in the Tax Certificate to be delivered by the Authority and the City in connection with the issuance of the Tax-Exempt Bonds, each of the Authority and the City will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Tax-Exempt Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching the conclusions supporting the opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by each of the Authority and the City with such covenants.

Except as stated in this section above, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt or accrual of interest on, or the ownership or disposition of, the Tax-Exempt Bonds. Furthermore, Bond Counsel will express no opinion as to the effect of any change to any document pertaining to the Tax-Exempt Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Bond Counsel or in reliance upon the advice of counsel other than Bond Counsel with respect to the exclusion from gross income for federal income tax purposes of the interest on the Tax-Exempt Bonds. Bond Counsel has not undertaken to advise in the future whether any event after the date of issuance of the Tax-Exempt Bonds may affect the tax status of interest on the Tax-Exempt Bonds or the tax consequences of the ownership of, or the receipt or accrual of interest on, the Tax-Exempt Bonds.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority and the City described above. No ruling has been sought from the IRS with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of examining the tax-exempt status of the interest on municipal obligations. If an examination of the Tax-Exempt Bonds is commenced, under current procedures the Service is likely to treat the Authority as the “taxpayer,” and the owners would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt



status of the interest on the Tax-Exempt Bonds, the Authority and/or the City may have different or conflicting interests from the owners. Public awareness of any future examination of the Tax-Exempt Bonds could adversely affect the value and liquidity of the Tax-Exempt Bonds during the pendency of the examination, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to bondholders of the exemption of interest on the Tax-Exempt Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Tax-Exempt Bonds from the gross income of the owners thereof for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult with their own tax advisors with respect to any proposed or future change in tax law.

A copy of the form of opinion of Bond Counsel relating to the Tax-Exempt Bonds is included in APPENDIX E hereto.

***Tax Accounting Treatment of Bond Premium and Original Issue Discount on Tax-Exempt Bonds.*** To the extent that a purchaser of a Tax-Exempt Bond acquires that Tax-Exempt Bond at a price in excess of its principal amount<sup>(cmg1)</sup>, such excess will constitute “bond premium” under the Code. The Code and the Treasury Regulations promulgated thereunder provide generally that bond premium on a tax-exempt obligation is amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity (or yield to call in the case of certain callable obligations). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its Tax-Exempt Bond is sold or disposed of for an amount equal to or less than the original cost of the Tax-Exempt Bond to the owner.

Bond Counsel is not opining on the accounting for or consequence to a Tax-Exempt Bond purchaser of bond premium on the Tax-Exempt Bonds. Persons considering the purchase of Tax-Exempt Bonds with initial bond premium should consult with their own tax advisors with respect to the determination of amortizable bond premium on such Tax-Exempt Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Tax-Exempt Bonds.

The initial public offering of certain of the Tax-Exempt Bonds (the “Discount Bonds”) may be less than the amount payable on such Tax-Exempt Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Tax-Exempt Bonds described above. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Bond, and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, "S" corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued original issue discount on Discount Bonds and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

**California Personal Income Tax.** In the opinion of Bond Counsel, interest on the Tax-Exempt Bonds is exempt from personal income taxes of the State of California.

**Other Tax Consequences.** Ownership of, or the receipt or accrual of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Tax-Exempt Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

## **Taxable Bonds**

**State Tax Exemption on Taxable Bonds.** In the opinion of Bond Counsel, under existing law interest on the Taxable Bonds is exempt from personal income taxes of the State of California. Except as set forth in the preceding sentence, Bond Counsel will provide no opinion in connection with the issuance or offering of the Taxable Bonds with regard to the matters discussed below or any other federal, state or local tax consequence of the ownership or disposition of or the receipt of interest on any Taxable Bond. A copy of the form of opinion of Bond Counsel relating to the Taxable Bonds is included in Appendix C.

**Federal Income Tax Considerations for the Taxable Bonds.** The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Taxable Bonds that acquired those Taxable Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal tax considerations discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following

discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, or (ii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Taxable Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire Taxable Bonds of a maturity pursuant to this offering for the “issue price” of Taxable Bonds of that maturity (i.e., the first price at which a substantial amount of the Taxable Bonds of that maturity are sold to the public) and who will hold their Taxable Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Taxable Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Taxable Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Notwithstanding the rules described below, it should be noted that, under newly enacted law that is effective for tax years beginning after December 31, 2017 (or, in the case of original issue discount, for tax years beginning after December 31, 2018), certain accrual method taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Taxable Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below.

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Taxable Bonds in light of their particular circumstances.

### **U.S. Holders**

**Interest on Taxable Bonds.** Accrual or receipt of qualified stated interest on Taxable Bonds held by a U.S. Holder generally will be taxable as ordinary income at the time such interest is accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes. For purposes of this discussion, the term “qualified stated interest” on a Taxable Bond means all interest thereon based on a fixed rate, and payable unconditionally at fixed periodic intervals of one year or less during the entire term of the instrument.

**Original Issue Discount.** To the extent that the issue price of any maturity of the Taxable Bonds is less than the stated redemption price at maturity of those Taxable Bonds by more than a de minimis

amount, the difference may constitute original issue discount (“OID”). For purposes of this discussion, the term “stated redemption price at maturity” of a Taxable Bond refers to the aggregate of all payments (exclusive of payments of qualified stated interest) to be made over the term of such Taxable Bond. A U.S. Holder of a Taxable Bond with OID generally will be required to include in its income for U.S. federal income tax purposes portions of such OID as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income) and without regard to the regular method of tax accounting of that U.S. Holder. As a consequence, such a U.S. Holder may be required to include as interest in its taxable income in a tax year an amount in excess of the amount of qualified stated interest received during that year.

***Amortizable Bond Premium.*** Taxable Bonds purchased for an amount in excess of the stated redemption price at maturity (or, in some cases, at their earlier call date) will be treated as acquired with premium. A U.S. Holder of a Taxable Bond acquired with premium may make an election, applicable to all debt securities purchased with premium by such U.S. Holder, to amortize such premium using a constant yield method over the remaining term of such Taxable Bond. That a Taxable Bond was purchased by the holder with amortizable Taxable Bond premium may affect the computation of includable original issue discount for that holder.

***Sale or Other Taxable Disposition of the Taxable Bonds.*** Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement or other disposition of a Taxable Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted U.S. federal income tax basis in the Taxable Bond (generally, the purchase price paid by the U.S. Holder for the Taxable Bond, decreased by any amortized premium and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Taxable Bond). Such loss and (subject to the discussion in the immediately following paragraph) such gain will be capital loss or gain. In the case of a non-corporate U.S. Holder of the Taxable Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. Holder’s holding period for the Taxable Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Under current law, a U.S. Holder of a Taxable Bond that did not purchase that Taxable Bond at its issue price in the initial public offering (a “subsequent purchaser”) generally will be required, on the disposition (or earlier partial principal payment) of such Taxable Bond, to recognize as ordinary income a portion of the gain (or partial principal payment), if any, to the extent of the accrued “market discount.” In general, market discount is the amount by which the price paid for such Taxable Bond by such a subsequent purchaser is less than the stated redemption price at maturity of that Taxable Bond (or, in the case of a Taxable Bond bearing original issue discount, is less than the “revised issue price” of that Taxable Bond (as defined below) upon such purchase), except that market discount is considered to be zero if it is less than one quarter of one percent of the principal amount times the number of complete remaining years to maturity. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Taxable Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The recharacterization of gain as ordinary income on a subsequent disposition of such Taxable Bonds could have a material effect on the market value of such Taxable Bonds.

**Medicare Tax.** Certain non-corporate U.S. Holders of Taxable Bonds are subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" (in the case of individuals) or "undistributed net investment income" (in the case of estates and certain trusts) for the relevant taxable year and (2) the excess of the U.S. Holder's "modified adjusted gross income" (in the case of individuals) or "adjusted gross income" (in the case of estates and certain trusts) for the taxable year over a certain threshold (which in the case of individuals is between \$200,000 and \$250,000, depending on the individual's circumstances). A U.S. Holder's calculation of net investment income generally will include its interest income on the Taxable Bonds and its net gains from the disposition of the Taxable Bonds, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are an individual, estate, or trust, you are urged to consult your tax advisors regarding the applicability of this tax to your income and gains in respect of your investment in the Taxable Bonds.

**Information Reporting and Backup Withholding.** Payments on the Taxable Bonds to U.S. Holders generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Taxable Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Taxable Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Taxable Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

### **Non-U.S. Holders**

**Interest.** Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance Act," payments of principal of, and interest on, any Taxable Bond to a Non-U.S. Holder, other than a bank that acquires such Taxable Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, generally will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Taxable Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

**Sale or Other Taxable Disposition of the Taxable Bonds.** Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement or other disposition of a Taxable Bond generally will not be subject to U.S. federal income tax, unless: (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement or other disposition and certain other conditions are met.

**U.S. Federal Estate Tax.** A Taxable Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Taxable Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

**Information Reporting and Backup Withholding.** Subject to the discussion below under the heading "Foreign Account Tax Compliance Act ("FATCA")—U.S. Holders and Non-U.S. Holders," under current U.S. Treasury Regulations, payments of principal and interest on any Taxable Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable Bond or a financial institution holding the Taxable Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification, made under penalties of perjury, to the payor and the payor does not have actual knowledge that the certification is false. The certification must set forth the name and address of the holder and state that: (i) the owner of the Taxable Bonds is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States; (ii) interest on such Taxable Bonds is treated as not effectively connected with a United States trade or business of the Non-U.S. Holder; (iii) such interest payments are not made to a person within a foreign country that the Service has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) such interest is not deemed "contingent interest" within the meaning of the portfolio debt provisions of the Code; (v) the Non-U.S. Holder is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) the Non-U.S. Holder is not a bank receiving interest on the Taxable Bonds pursuant to a loan agreement entered into in the ordinary course of the Non-U.S. Holder's banking trade or business. The current backup withholding tax rate is 24%.

#### **Foreign Account Tax Compliance Act ("FATCA")—U.S. Holders and Non-U.S. Holders**

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner.

Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under the Taxable Bonds and sales proceeds of Taxable Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to (i) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2018 and (ii) certain "passthru" payments no earlier than January 1, 2019. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

#### **Effect of Defeasance**

Pursuant to the Indenture, the Taxable Bonds are subject to defeasance without the consent of the holders of the Taxable Bonds. Defeasance of any of the Taxable Bonds may be treated as a taxable constructive exchange of that Taxable Bond for the defeased Taxable Bond, in which event, the holder will

recognize gain or loss for federal income tax purposes equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest, which will be taxable as described above) and the holder's adjusted tax basis in the Taxable Bonds (described above).

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Taxable Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Taxable Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

#### **NO LITIGATION**

At the time of issuance of and payment for the Bonds, the Authority will certify that, except as disclosed herein, there is no action, suit, proceeding, inquiry or investigation, notice of which has been served on the Authority, at law or in equity before or by any court, government agency, public board or body, pending against the Authority, affecting the existence of the Authority or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the pledge and lien on the Net Water Revenues pursuant to the Indenture, or contesting or affecting as to the Authority the validity or enforceability of the Bond Law, the Bonds, the Indenture or the Lease Agreement, or contesting the tax-exempt status of interest on the Bonds, or contesting the completeness or accuracy of this Official Statement, or contesting the powers of the Authority for the issuance of the Bonds, or the execution and delivery or adoption by the Authority of the Indenture or the Lease Agreement, or in any way contesting or challenging the consummation of the transactions contemplated hereby or thereby, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity of the Bond Law, as to the Authority, or the authorization, execution, delivery or performance by the Authority of the Bonds, the Indenture or the Lease Agreement.

#### **RATING**

S&P Global Ratings ("S&P") has assigned its long-term municipal rating of "AA-" to the Bonds. This rating reflects the view of S&P as to the credit quality of the Bonds. Such rating reflects only the view of S&P, and explanation of the significance of the rating may be obtained from S&P Global Ratings, 55 Water Street, New York, New York 10041 (212) 483-2000. There is no assurance that the rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant.

Except as otherwise required in the Continuing Disclosure Agreement, the Authority and the City undertake no responsibility either to bring to the attention of the owners of any Bonds any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the marketability or market price of the Bonds.

#### **MUNICIPAL ADVISOR**

The City has retained Columbia Capital Management, LLC, Glendale, California, as municipal advisor (the "Municipal Advisor") in connection with the planning, sale and delivery of the Bonds. Columbia Capital Management, LLC is a financial and investment advisory and consulting organization and is not engaged in the underwriting, marketing or trading of municipal securities or other negotiable instruments. The fees of the Municipal Advisor are contingent upon the delivery of the Bonds. The Municipal Advisor has assisted in various matters relating to the planning, structuring and issuance of the

Bonds. The Municipal Advisor has not verified the accuracy or completeness of the factual information contained in this Official Statement.

### CONTINUING DISCLOSURE

The Authority will undertake all responsibilities for any continuing disclosure with respect to holders of the Bonds as described below, and the Authority shall have no liability to the holders of the Bonds or any other person with respect to the Rule (as defined below) as it relates specifically to the Authority.

The Authority has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Authority and the Water Enterprise not later than February 15 in each year, commencing February 15, 2020 (the “Annual Report”), and to provide notices of the occurrences of certain enumerated events, if material. The Annual Report and any notices of enumerated events will be filed by the Authority with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (EMMA) website. The Municipal Securities Rulemaking Board has made such information available to the public without charge through such internet portal. The specific nature of information to be contained in the Annual Report or the notice of enumerated events is set forth in “APPENDIX D -- FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made by the Authority in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the “Rule”) promulgated by the Securities and Exchange Commission.

The City or related entity is, or was during the past five years, responsible for providing continuing disclosure with respect to the following four bond issues:

- \$33,215,000 City of Los Angeles Redevelopment Refunding Authority, Tax Allocation Revenue Refunding Bonds, South Gate Redevelopment Project No. 1, Claremont Consolidated Redevelopment Project, Series 2014A (Tax-Exempt), and \$3,920,000 Series 2014B (Federally Taxable), Dated: July 31, 2014 (the “2014 Bonds”)
- \$34,170,000 South Gate Utility Authority, Water Revenue Bonds, 2012 Series, Dated: August 23, 2012 (the “2012 Bonds”)
- \$24,400,000 City of South Gate 2005 Pension Obligation Refunding Bonds (Federally Taxable) Dated: March 8, 2005 (the “2005 Bonds”); and
- \$30,945,451.15 South Gate Utility Authority Subordinate Revenue Bonds, 2001 Series (Water and Sewer System Projects), Consisting of Current Interest Bonds \$25,690,000 and \$5,275,451.15 Capital Appreciation Bonds, Dated: November 20, 2001 (the “2001 Bonds”).

In conjunction with the delivery of the Bonds, the City engaged the services of Digital Assurance Certification LLC (“DAC”) to conduct a continuing disclosure compliance review with respect to the above-referenced bond issues. During the course of DAC’s review, it was determined that during the past five years, there were several instances of non-compliance by the City with the requirements of certain undertakings. Specifically:

- With respect to the 2012 Bonds, the Authority for the fiscal year (FY) 2018 was late in filing the draft AFS by 4 days and the AFS by 14 days, respectively, due to date of AFS of 2/28/19 and failed to file the AFS for FY 2015 under the CUSIPs for the 2012 Bonds as required. With respect to the 2012 Bonds, the Annual Report for FY 2018 that was posted



to EMMA was filed 4 days late. The Authority did not file in a timely manner notice of late annual financial information;

- With respect to the 2005 Bonds, the City for the FY 2018 was late in filing the draft AFS by 4 days and the AFS by 14 days, respectively, due to date of AFS of 2/28/19. With respect to the 2005 Bonds, the Annual Report for FY 2016 and FY 2018 that was posted to EMMA was filed 47 and 4 days late, respectively, and the Annual Report for FY 2014 through FY 2018 failed to include certain required information (top ten sales tax payers), which information was subsequently provided in 2019 (\_\_\_, \_\_\_, \_\_\_, \_\_\_, and \_\_\_ days late). The City did not file in a timely manner notice of late annual financial information;
- With respect to the 2001 Bonds, the Authority for FY 2018 was late in filing the draft AFS by 4 days and the AFS by 14 days, respectively, due to date of AFS of 2/28/19 and failed to file the AFS for FY 2015 and FY 2016 under the CUSIPs for the 2001 Bonds as required. With respect to the 2001 Bonds, the Annual Report for FY 2018 that was posted to EMMA was filed 4 days late, and the Annual Report for FY 2014 through FY 2018 failed to include certain required information, which information was subsequently provided in 2019 (\_\_\_, \_\_\_, \_\_\_, and \_\_\_ days late). The Authority did not file in a timely manner notice of late annual financial information;
- With respect to the 2012 Bonds, material event notices were not timely filed for rating upgrades on December 15, 2015 and March 28, 2016. The City did not in a timely manner file notice of late material event information;
- With respect to the 2005 Bonds, material event notices were not timely filed for rating upgrades on December 21, 2017 and February 23, 2018. The City did not in a timely manner file notice of late material event information; and
- With respect to the 2001 Bonds, material event notices were not timely filed for bond insurer rating downgrade and withdrawal in 2017. The City did not in a timely manner file notice of late material event information.

The City recently undertook a review of its policies and has adopted a formal continuing disclosure policy that will help assure compliance with existing and future continuing disclosure undertakings (including those for related entities) through creation of a disclosure practices working group including a City staff disclosure coordinator. The City believes that its procedures with the Dissemination Agent will be sufficient in the normal due course to assure substantial compliance with its continuing disclosure undertakings in the future, including the Continuing Disclosure Agreement with respect to the Bonds.

### **MISCELLANEOUS**

This Official Statement does not constitute a contract with the purchasers of the Bonds.

All information included herein has been provided by the Authority, except where attributed to other sources. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

All of the preceding descriptions and summaries of certain legal documents, other applicable legislation, agreements, reports and other documents are made subject to the provisions of such documents respectively, and do not purport to be complete statements of any or all of such provisions. Reference is

hereby made to such documents available from the Underwriter and following issuance of the Bonds, on file at the offices of the Trustee in Los Angeles, California, for further information in connection therewith. The information contained herein has been compiled from official and other resources and, while not guaranteed by the Authority, is believed to be correct.

**AUTHORIZATION OF OFFICIAL STATEMENT**

The delivery of this Official Statement has been duly authorized by the Authority. At the time of delivery of the Bonds, an authorized officer of the Authority will furnish a certificate to the effect that such authorized officer has no knowledge or reason to believe that this Official Statement, as of its date and as of the date of issuance of the Bonds, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

**SOUTH GATE UTILITY AUTHORITY**

By: \_\_\_\_\_  
Michael S. Flan, Executive Director

## APPENDIX A

### GENERAL INFORMATION ABOUT THE CITY OF SOUTH GATE

*The following information concerning the City of South Gate is included only for the purpose of supplying general information regarding the City. The City is not obligated in any manner to pay principal of or interest on the Bonds or to cure any delinquency or default on the Bonds.*

#### General

The City of South Gate, incorporated in 1923, is the seventeenth largest city in Los Angeles County (the "County") and encompasses 7.5 square miles. The City is located in the urbanized area of the southern part of the County, approximately 12 miles south of downtown Los Angeles. Almost all of the City is developed, with less than 60 acres remaining undeveloped or vacant.

The City is a general law city and operates under a Council-Manager form of government and provides, either directly or under contract with the County, a full range of municipal services including police, fire, water, sewer, refuse, parks and recreation, community development, public libraries and cultural events. As of June 30, 2018, the City employed 316 full-time employees and approximately 61 full-time equivalent part-time employees. Over 50% of land use within the City is residential, approximately 30% commercial or industrial and the remaining public or railroad and utility easements.

There are nine parks in the City, representing 171 acres of recreational area. The 96-acre South Gate Park is home to the Municipal Auditorium, the Girls' Clubhouse, the Sports Center, the Senior Citizen Building, a par three golf course, an Olympic size indoor swimming pool, six tennis courts, six indoor basketball courts, ten outdoor basketball courts and ten baseball fields (nine lighted). Access to the Southern Avenue Bike Pedestrian Way and the Rio Hondo Bicycle Trail is conveniently located within the City.

The City has a semi-arid Mediterranean climate with mild winters and warm, dry summers. The average annual precipitation is 14.9 inches per year with most occurring between November and April. Temperatures range from a low of 40°F to a high of 110°F. The average daily temperatures range from 56°F to 75°F.

#### Municipal Government

The City was incorporated on January 20, 1923 and operates under the Council-Manager form of government. The City Council consists of five members, elected at large by the voting public, to serve four year terms. The Mayor and Vice-Mayor are elected for a one-year term by the council members.

The members of the City Council, their occupations, and the expiration date of their Councilmember terms are as follows:

Councilmember	Term Expires	Occupation
Maria "Belén" Bernal, Mayor	March 2023	
Denise Diaz, Vice Mayor	March 2021	
Maria Davila, Councilmember	March 2023	
Al Rios, Councilmember	March 2021	
Bill De Witt, Councilmember	March 2023	

Michael S. Flad bio.

**Population**

Approximately 95% of the City’s residents are Hispanic or Latino. Population figures for the City, the County and the State for the last five years are shown in the following table.

<b>CITY OF SOUTH GATE Population Estimates <sup>(1)</sup></b>			
<b>Year</b>	<b>City of South Gate</b>	<b>County of Los Angeles</b>	<b>State of California</b>
2015	96,428	10,155,753	38,952,462
2016	97,177	10,185,851	39,214,803
2017	97,151	10,226,920	39,504,609
2018	97,019	10,254,658	39,740,508
2019	96,777	10,253,716	39,927,315

Source: State Department of Finance.

<sup>(1)</sup> Estimates (as of January 1).

**Employment**

The following table summarizes the City’s employment and unemployment rates for 2014 through 2018 calendar years.

<b>CITY OF SOUTH GATE Civilian Labor Force, Employment and Unemployment Annual Averages</b>					
	2014	2015	2016	2017	2018
Civilian Labor Force					
Employment	38,900	39,400	40,200	40,700	41,000
Unemployment	<u>4,700</u>	<u>3,700</u>	<u>2,500</u>	<u>2,200</u>	<u>2,100</u>
Total	<u>43,600</u>	<u>43,100</u>	<u>42,600</u>	<u>42,900</u>	<u>43,100</u>
Unemployment Rate <sup>(a)</sup>	10.7%	8.6%	5.8%	5.2%	4.9%

(a) The unemployment rate is calculated using unrounded data.

Source: California Employment Development Department, April 19, 2019 with March 2018 Benchmark.

The unemployment rate (not seasonally adjusted) for the month of June 2019 is 4.8 for the City, 4.6% for the County, 4.1% for the State and 3.8% for the U.S.

**Income**

The U.S. Census Bureau *American FactFinder* reports that the median income of households in the City for 2017 is \$47,281 compared to \$67,169 for the State and \$57,652 for the nation. Eighty-seven percent of the households received earnings, with over twenty-seven percent of the households receiving Social Security. These income sources are not mutually exclusive, with some households receiving income from more than one source.

**Industry**

The City is part of the Los Angeles-Long Beach-Glendale Metropolitan Statistical Area (“MSA”), which is comprised of parts of Los Angeles County. The City is included in the Los Angeles-Long Beach-Glendale Metropolitan Statistical Area. The table below reflects the amount and type of employment within such area. These figures are county-wide statistics and may not necessarily accurately reflect labor force trends in the City.

<b>LOS ANGELES-LONG BEACH-GLENDALE MSA</b>					
<b>Historical Civilian Labor Force</b>					
<b>Calendar Years 2013 through 2017</b>					
<b>Annual Averages</b>					
Wage and Salary Employment: <sup>(2)</sup>	2013	2014	2015	2016	2017
Agriculture	5,500	5,200	5,000	5,300	5,800
Mining and Logging	3,400	3,100	2,900	2,500	2,200
Construction	114,600	118,500	126,200	133,900	137,700
Manufacturing	375,600	371,100	367,800	360,300	350,100
Wholesale Trade	218,700	222,500	225,700	225,200	224,500
Retail Trade	405,800	413,100	419,300	421,500	422,500
Transportation, Warehousing, Utilities	157,500	163,400	171,500	182,300	191,800
Information	197,000	198,800	207,500	229,200	214,500
Finance and Insurance	138,300	134,500	135,600	138,100	137,400
Real Estate and Rental and Leasing	74,700	76,700	80,000	81,600	83,700
Professional and Business Services	584,800	591,700	593,800	603,200	613,400
Educational and Health Services	702,100	720,700	741,100	767,600	794,300
Leisure and Hospitality	438,900	464,100	486,600	510,000	523,900
Other Services	145,700	150,500	151,000	153,300	154,100
Federal Government	47,200	46,700	47,400	47,700	48,000
State Government	83,600	85,300	87,400	89,900	92,500
Local Government	420,500	424,200	433,700	438,600	438,600
<b>Total all Industries <sup>(1)</sup></b>	<b>4,113,600</b>	<b>4,189,800</b>	<b>4,282,300</b>	<b>4,390,800</b>	<b>4,441,400</b>

(1) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Recent commercial development within the City includes the Azalea Shopping Center which opened in 2014 and contains over 370,000 sq. ft. of retail and restaurants including Wal-Mart, Petco, Marshall’s, Michael’s, In N’ Out, Blaze Pizza and T.G.I. Fridays, as well as The Crossroads at Firestone, a 53,259 sq. ft. center that includes a mix of retail and restaurants including Aldi, Jersey Mike’s Subs, Panera Bread, Burgerim and AT&T.

**Largest Employers**

The following table lists the top ten employers within the City according to the South Gate Chamber of Commerce:

<b>CITY OF SOUTH GATE Major Employers</b>	
Name of Business	Product or Service
Koo's Manufacturing	Denim Jeans
HUDD Transportation Services	Trucking/Distribution
J.B. Hunt Transport, Inc.	Trucking
Tesoro	Fuel Distribution
AltaMed	Health Services
Primestar	Satellite Broadcast
Rockview	Dairy
World Oil Co.	Fuel Distribution
IRS Demo	Demolition and Removal
Edison International	Utility

*Source: South Gate Chamber of Commerce*

**Commercial Activity and Sales Tax**

The following table shows a breakdown of the taxable sales within the City for 2017 calendar year (the latest calendar year in which annual information is available).

<b>CITY OF SOUTH GATE Taxable Sales – 2017</b>		
Type of Business	Permits	Taxable Transactions
<b>Retail and Food Services</b>		
Motor Vehicle and Parts Dealers	133	\$126,094,339
Home Furnishings and Appliance Stores	93	17,266,043
Bldg. Material and Garden Equip. & Supplies	24	1,940,210
Food and Beverage Stores	94	39,178,881
Gasoline Stations	20	104,792,299
Clothing and Clothing Accessories Stores	172	57,295,158
General Merchandise Stores	52	213,835,719
Food Services and Drinking Places	217	127,669,808
Other Retail Stores	<u>308</u>	<u>49,852,452</u>
<b>Retail and Food Total</b>	<b>1,113</b>	<b>\$737,924,909</b>
All Other Outlets	<u>691</u>	<u>226,496,230</u>
<b>Totals All Outlets</b>	<b>1,804</b>	<b>\$964,421,139</b>

*Source: California Department of Tax and Fee Administration.*

## Construction Activity

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

<b>CITY OF SOUTH GATE</b>					
<b>Building Permits and Valuation</b>					
<b>(Dollars in Thousands)</b>					
	2014	2015	2016	2017	2018
<b>Permit Valuation:</b>					
New Single-family	\$ 936	\$ 633	\$ 1,489	\$ 845	\$ 1,600
New Multi-family	35,300	0	842	5,215	0
Res. Alterations/Additions	<u>5,417</u>	<u>6,980</u>	<u>6,853</u>	<u>6,113</u>	<u>6,403</u>
Total Residential	41,653	7,613	9,184	12,173	8,003
Total Nonresidential	<u>17,505</u>	<u>21,227</u>	<u>21,143</u>	<u>12,138</u>	<u>18,942</u>
Total All Building	\$59,158	\$28,840	\$30,327	\$24,311	\$26,945
<b>New Dwelling Units:</b>					
Single Family	5	3	5	9	21
Multiple Family	221	0	7	31	0
Total	226	3	12	40	21

Source: Construction Industry Research Board: Building Permit Summary – California Cities and Counties Data for Calendar Years 2014-2018.

Note: Totals may not add due to independent rounding.

## Education

Schools located in the City include: 12 public (ten elementary, one high school and one junior high school) and two parochial schools. Adult Education classes are conducted at both the junior and senior high schools. The City is also served by three community colleges (Compton, Cerritos and East Los Angeles – main campus and South Gate satellite) and three California State Universities (Dominguez Hills, Long Beach and Los Angeles.)

## Utilities

The City has no utility user tax. Electricity and gas service are provided to the area by Southern California Edison Company and Southern California Gas Company respectively. Water service is through the South Gate Water Department.

## Transportation

The two main highways traversing the South Gate area are the Long Beach Freeway (I-710) and Century Freeway (I-105). Southern Pacific and Union Pacific Railways are accessible to three intermodal ramps. The City is 12 miles from Los Angeles International Airport (LAX), ten miles from Long Beach Airport; eight miles from Hawthorne Municipal Airport and six miles from Compton Municipal airport. South Gate is 16 miles from the Port of Long Beach and 19.5 miles from the Port of Los Angeles. Regionally, the City is served by the Metropolitan Transit Authority. Locally, the City provides individuals with transportation services through its Phone-A-Ride program.

## **Upcoming Development**

Upcoming development within the City includes “Urban Orchard,” a \$12 million project that will add a 30-acre park in open space along the Los Angeles River, “Employment Resource Center,” an \$8 million project that will transform former South Gate Courthouse to an employment resource center to connect residents to potential employers, and “Boulevard Project,” a \$20 million capital project to enhance safety and reduce congestion along Firestone Blvd. Other projects include the Los Angeles River Cultural Center, a \$26 million project to construct a cultural center designed by Frank Gehry, and the addition of two light rail stations (Metro Rail) in the City to connect to Downtown Los Angeles and LAX which is expected to be completed by the 2028 Olympics.



**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS**  
**OF THE CITY FOR FISCAL YEAR 2017-18**

**APPENDIX C**  
**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

**APPENDIX D**  
**FORM OF CONTINUING DISCLOSURE AGREEMENT**

## APPENDIX E

### BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix E concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the Authority takes no responsibility for the completeness or accuracy thereof. The Authority cannot and does not give any assurances 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 Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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](http://www.dtcc.com).

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

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

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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

10. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, representing the Bonds will be printed and delivered to DTC in accordance with the provisions of the Indenture.

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

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

**APPENDIX F**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[Closing Date]

South Gate Utility Authority  
8650 California Avenue  
South Gate, California 90280

SOUTH GATE UTILITY AUTHORITY	
\$ _____	\$ _____
Water Revenue Refunding Bonds 2019 Series A	Taxable Water Revenue Refunding Bonds 2019 Series A-T

Ladies and Gentlemen:

We have acted as bond counsel to the South Gate Utility Authority, a joint exercise of powers entity established under the Constitution and laws of the State of California (the "Authority"), in connection with the issuance of \$ \_\_\_\_\_ aggregate principal amount of its Water Revenue Refunding Bonds, 2019 Series A (the "Tax-Exempt Bonds") and of \$ \_\_\_\_\_ aggregate principal amount of its Water Revenue Refunding Bonds, 2019 Series A-T (the "Taxable Bonds," and together with the Tax-Exempt Bonds, the "Bonds").

The Bonds are being issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and an Indenture of Trust, dated as of December 1, 2019 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds are payable from Net Water Revenues, as defined in the Indenture. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Indenture.

As bond counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the Authority in connection with the issuance of the Bonds. We have also examined such certificates of officers of the Authority and others as we have considered necessary for the purposes of this opinion.

Based upon the foregoing, we are of the opinion that:

1. The Bonds constitute valid and binding limited obligations of the Authority as provided in the Indenture, and are entitled to the benefits of the Indenture. The Bonds are payable from Net Water Revenues (as such term is defined in the Indenture).
2. The Indenture has been duly and validly authorized, executed and delivered by the Authority and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the Bonds, of the Net Water Revenues and other amounts held by the Trustee in the funds and accounts established pursuant to the Indenture, subject to

the provisions of the Indenture permitting the application thereof for other purposes and on the terms and conditions set forth therein.

3. Under existing statutes, regulations, rulings and court decisions, and assuming compliance with the covenants mentioned below, interest on the Tax-Exempt Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that under existing statutes, regulations, rulings and court decisions, interest on the Tax-Exempt Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax. We are further of the opinion that interest on the Bonds is exempt from personal income taxes of the State of California under present state law.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Tax-Exempt Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Tax-Exempt Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Tax-Exempt Bonds. Pursuant to the Indenture, and in the Tax Certificate being delivered by the Authority and the City in connection with the issuance of the Tax-Exempt Bonds, each of the Authority and the City is making representations relevant to the determination of, and is undertaking certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching our opinions described in the immediately preceding paragraph, we have assumed the accuracy of such representations and the present and future compliance by each of the Authority and the City with such covenants. Further, except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Further, we express no opinion as to the effect of any change to the Indenture or any other document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income for federal income tax purposes of the interest on the Tax-Exempt Bonds.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the Bonds, and the Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Bonds and the Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any fact or circumstance that may hereafter come to our attention or to reflect any change in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of results and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,



\$[ ]  
**SOUTH GATE UTILITY AUTHORITY  
WATER REVENUE REFUNDING BONDS  
2019 SERIES A**

\$[ ]  
**SOUTH GATE UTILITY AUTHORITY  
TAXABLE WATER REVENUE  
REFUNDING BONDS  
2019 SERIES A-T**

**PURCHASE CONTRACT**

December [ ], 2019

South Gate Utility Authority  
8650 California Avenue  
South Gate, CA 90280

Ladies and Gentlemen:

Raymond James & Associates, Inc. (the "Underwriter") hereby offers to enter into this Purchase Contract with you, the South Gate Utility Authority (the "Authority"), for the purchase by the Underwriter and the delivery by you of the Bonds specified below. The Tax-Exempt Bonds (defined below) are being issued by the Authority to: (i) currently refund a portion of the Authority Water Revenue Refunding Bonds, 2012 Series (the "2012 Bonds") maturing on October 1, 2037, (ii) finance certain capital improvements to the Water Enterprise, and (iii) pay the costs of issuance of the Tax-Exempt Bonds. The Taxable Bonds (defined below) are being issued by the Authority to: (i) advance refund a portion of the remaining portion of the 2012 Bonds, and (ii) pay the costs of issuance of the Taxable Bonds. This offer is made subject to acceptance by you prior to 11:59 p.m., Los Angeles time, on the date hereof. Upon such acceptance, this Purchase Contract 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 (defined below).

**1. Purchase and Sale.** Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter agrees to purchase from the Authority, and the Authority agrees to sell to the Underwriter, all (but not less than all) of the \$[ ] aggregate principal amount of the Authority's Water Revenue Refunding Bonds, 2019 Series A (the "Tax-Exempt Bonds"), at the purchase price of \$[ ] (being the principal amount of the Tax-Exempt Bonds, less an Underwriter's discount in the amount of \$[ ], and [plus/less [an] [net] original issue [premium/discount] of \$[ ]) and the \$[ ] aggregate principal amount of the Authority's Taxable Water Revenue Refunding Bonds, 2019 Series A-T (the "Taxable Bonds" and together with the Tax-Exempt Bonds, the "Bonds"), at the purchase price of \$[ ] (being the principal amount of the Taxable Bonds, less an Underwriter's discount in the amount of \$[ ], and [plus/less [an] [net] original issue [premium/discount] of \$[ ])

The Bonds will be dated the date of delivery thereof, and will have the maturities and bear interest at the rates set forth on Exhibit A hereto. The Bonds will be subject to redemption as set forth in the Indenture and Official Statement herein described. The Bonds will be issued in book-entry form only. It is anticipated that CUSIP identification numbers will be inserted 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 Contract.

The Authority acknowledges and agrees that: (i) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length commercial transaction between the Authority and the Underwriter in which the Underwriter is acting solely as principal and not as agent of the Authority and the Underwriter is not acting as a municipal advisor (within the meaning of Section 15B of The Securities Exchange Act of 1934, as amended), financial advisor or fiduciary to the Authority; (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to the Authority with respect to the transaction contemplated by this Purchase Contract 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 on other matters); (iii) the only obligations the Underwriter has to the Authority with respect to the transaction contemplated by this Purchase Contract are expressly set forth in this Purchase Contract; (iv) the Underwriter has financial and other interests that differ from those of the Authority; and (v) the Authority has consulted its own financial and/or municipal legal, accounting, tax and other advisors, as applicable, to the extent the Authority has 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").

**2. Authorizing Instruments and Law.** The Bonds shall be issued pursuant to the provisions of a resolution (the "Resolution") adopted by the Authority on November 26, 2019 authorizing the issuance of the Bonds. The Bonds are issued pursuant to an Indenture of Trust, dated as of December 1, 2019 (the "Indenture"), between the Authority and U.S. Bank National Association (the "Trustee"), and shall be as described in the Indenture.

The Bonds are special obligations of the Authority, and are payable from and secured by a charge and first lien upon net water revenues of the water enterprise and from amounts held from time to time in the funds and accounts established under the Indenture.

**3. Offering the Bonds; Establishment of Issue Price.**

(a) The Underwriter agrees to assist the Authority in establishing the issue price of the Tax-Exempt 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, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Tax-Exempt Bonds.

(b) Except as otherwise set forth in Exhibit A attached hereto, the Authority will treat the first price at which 10% of each maturity of the Tax-Exempt 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 Contract, the Underwriter shall report to the Authority the price or prices at which it has sold to the public each maturity of Tax-Exempt Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Tax-Exempt Bonds, the Underwriter agrees to promptly report to the Authority the prices at which it sells the unsold Tax-Exempt 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 Tax-Exempt Bonds of that maturity or (ii) the 10% test has been satisfied as to the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds.

(c) The Underwriter confirms that it has offered the Tax-Exempt Bonds to the public on or before the date of this Purchase Contract at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Exhibit A attached hereto, except as otherwise set forth therein. Exhibit A also sets forth, as of the date of this Purchase Contract, the maturities, if any, of the Tax-Exempt Bonds for which the Underwriter represents that (i) the 10% test has been satisfied (assuming orders are confirmed by the close of the business day immediately following the date of this Purchase Contract) and (ii) the 10% test has not been satisfied and for which the Authority and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the Authority to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Tax-Exempt Bonds, the Underwriter will neither offer nor sell unsold Tax-Exempt Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(A) the close of the fifth (5th) business day after the sale date; or

(B) the date on which the Underwriter has sold at least 10% of that maturity of the Tax-Exempt Bonds to the public at a price that is no higher than the initial offering price to the public.

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 Tax-Exempt Bonds to the public at a price that is no higher than the initial offering price to the public.

(d) The Underwriter confirms that:

(i) any selling group agreement and any third-party distribution agreement relating to the initial sale of the Tax-Exempt 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 Tax-Exempt Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Tax-Exempt 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 Tax-Exempt Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Tax-Exempt Bonds.

(f) The Underwriter acknowledges that sales of any Tax-Exempt Bonds to any person that is a related party to an underwriter participating in the initial sale of the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds to the public);

c. a purchaser of any of the Tax-Exempt 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 Contract by all parties.

**4. Delivery of Official Statement on the Date Hereof.** The Authority shall deliver to the Underwriter one copy of the Official Statement manually executed on behalf of the Authority by an authorized representative. The Authority shall also deliver a sufficient number of copies of the Official Statement to enable the Underwriter to distribute a single copy of each 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 within seven (7) business days after the execution of this Purchase Contract and in sufficient time to accompany or precede any sales confirmation that requests payment from any customer of the Underwriter. The Underwriter shall inform the Authority in writing of the End Date, and

covenants to file the Official Statement with the Municipal Securities Rulemaking Board (the “MSRB”) on a timely basis.

“End Date” as used herein is that date which is the earlier of:

(a) ninety (90) days after the end of the underwriting period, as defined in SEC Rule 15c2-12 adopted by the Securities and Exchange Commission on June 28, 1989 (“Rule 15c2-12”); or

(b) the time when the Official Statement becomes available from the MSRB, but in no event less than twenty-five (25) days after the underwriting period (as defined in Rule 15c2-12) ends.

The Authority has authorized the use of the Official Statement in connection with the public offering of the Bonds. The Authority also has consented to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement dated November [ ], 2019 relating to the Bonds in connection with the public offering of the Bonds (which, together with all appendices thereto, is herein called the “Preliminary Official Statement”). Authorized officers of the Authority have certified to the Underwriter that such Preliminary Official Statement was deemed to be final as of its date for purposes of Rule 15c2-12, with the exception of certain final pricing and related information referred to in Rule 15c2-12. The Underwriter has distributed a copy of the Preliminary Official Statement to potential customers on request.

**5. The Closing.** At 8:00 A.M., California time, on December [ ], 2019, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the Authority and the Underwriter, the Authority will deliver (i) the Bonds in book entry form through the facilities of The Depository Trust Company (“DTC”), and (ii) the closing documents hereinafter mentioned at the offices of Norton Rose Fulbright US, LLP, Los Angeles, California, or another place to be mutually agreed upon by the Authority and the Underwriter. The Underwriter will accept such delivery from the Authority. The Underwriter will pay the purchase price of the Bonds as set forth in Section 1 hereof by wire transfer of immediately available funds. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the “Closing.”

**6. Authority Representations, Warranties and Covenants.** The Authority represents, warrants and covenants to the Underwriter that:

(a) The Authority is a joint exercise of powers agency, duly organized and validly existing pursuant to the Constitution and laws of the State of California (the “State”), and has all necessary power and authority to enter into and perform its duties under the Indenture, the 2001 CAB Escrow Agreement, dated December \_\_, 2019, and the 2012 Bonds Escrow Agreement, dated as of December 1, 2019 (collectively, the “Escrow Agreements”), each between the Authority and U.S. Bank National Association, as escrow agent (the “Escrow Agent”), the Continuing Disclosure Agreement, dated as of December 1, 2019 (the “Continuing Disclosure Agreement”) and this Purchase Contract (collectively, the “Authority Documents”).

(b) The Bonds, when issued in accordance with the Indenture, will be legally valid and binding special obligations of the Authority, entitled to the benefits of the Indenture

and enforceable in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(c) To the best knowledge of the Authority, neither the execution and delivery of the Authority Documents, or the approval and execution of the Official Statement or this Purchase Contract, 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, materially conflicts with or constitutes a material breach of or default under nor materially 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 a 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.

(d) The Authority Documents have been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, 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, moratorium, reorganization, fraudulent conveyance 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 cities and agencies in the State of California.

(e) 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 agency having jurisdiction over the Authority required for the consummation by the Authority of the transactions contemplated by the Official Statement and this Purchase Contract.

(f) 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 issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Authority Documents or the authority of the Authority to approve this Purchase Contract, or enter into the Authority Documents or contesting the powers of the Authority to enter into or 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 Contract or to restrain or enjoin the execution of, or, except as described in the Preliminary Official Statement and the Official Statement, the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, nor is there any basis for any such action, suit, proceeding or investigation.

(g) The Preliminary Official Statement provided to the Underwriter has been deemed final by the Authority, as required by Rule 15c2-12. As of the date thereof and at all times subsequent thereto up to and including the End Date, the information relating to the Authority, the Bonds, the Water Enterprise and the Authority Documents contained in the Official Statement was and will be materially complete for its intended purposes. The information relating to the Authority, the Bonds, the Water Enterprise and the Authority Documents contained in the Official Statement (excluding any information with respect to DTC, the book-entry only system, the Trustee, 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 in any material respect.

(h) 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.

(i) 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 Contract.

(j) To the best knowledge of the Authority, it is not in breach of or default under any material applicable law or administrative regulation of the State of California or the United States or any material 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 in connection with which the Authority is obligated to make payments from its own funds, 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 the consequence of which could be to materially and adversely affect the performance of the Authority under the Authority Documents.

(k) If between the date of this Purchase Contract and the End Date an event occurs, of which the Authority has knowledge, which might or would cause the information relating to the Authority, the Water Enterprise 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 in any material respect, the Authority will notify the Underwriter, and if, in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the 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, provided all expenses thereby incurred will be paid for by the Authority.



(l) If the information relating to the Water Enterprise, the Authority, its functions, duties and responsibilities contained in the Official Statement is amended or supplemented pursuant to the immediately preceding subparagraph, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date 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 in any material respect.

(m) The Authority covenants that it will comply with all tax covenants relating to it in the Authority Documents, the Tax Certificate of the Authority and this Purchase Contract relating to the Tax-Exempt Bonds.

(n) Substantially all the proceeds from the sale of the Bonds (after deducting the expenses of issuance and sale of the Bonds paid for from such proceeds) will be used to redeem the 2012 Bonds and finance certain improvements to the Water Enterprise, and the Authority 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.

(o) The Authority will deliver all opinions, certificates, letters and other instruments and documents reasonably required by the Underwriter and this Purchase Contract.

(p) 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.

(q) 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 Net Water Revenues except as disclosed in the Official Statement.

(r) Between the date of this Purchase Contract 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 certificates, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, secured by a lien on Gross Water Revenues or Net Water Revenues.

(s) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the Authority of its obligations in connection with, the Authority Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

(t) The Authority has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the Authority is a bond issuer whose arbitrage certifications may not be relied upon.

(u) Except as otherwise described in the Preliminary Official Statement and Official Statement, the Authority has not failed in any material respect to comply with any undertaking of the Authority under Rule 15c2-12 in the previous five years.

**7. Representations and Agreements of the Underwriter.** The Underwriter represents to and agrees with the Authority that, as of the date hereof and as of the date of the Closing:

(a) The Underwriter is duly authorized to execute and deliver this Purchase Contract and to take any action under this Purchase Contract required to be taken by it.

(b) The Underwriter is in compliance with MSRB Rule G-37 with respect to the Authority, and is not prohibited thereby from acting as underwriter with respect to securities of the Authority.

(c) The Underwriter has, and has had, no financial advisory relationship with the Authority with respect to the Bonds, and no investment firm controlling, controlled by or under common control with the Underwriter has or has had any such financial advisory relationship, within the meaning of California Government Code Section 53590, or otherwise.

(d) The Underwriter has not paid or agreed to pay, nor will it pay or agree to pay, any entity, company, firm or person, other than a bona fide officer, agent or employee working for the Underwriter, any compensation, fee, gift or other consideration contingent upon or resulting from the award of or entering into this Purchase Contract.

**8. Closing Conditions.** The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the Authority of its respective obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations hereunder are and shall be subject to the following additional conditions:

(a) Bring-Down Representation. The representations, warranties and covenants of the Authority contained herein shall be true and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(b) Executed Agreements and Performance Thereunder. At the time of the Closing:

(i) the Authority Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter;

(ii) there shall be in full force and effect the Resolution as, in the opinion of Norton Rose Fulbright US LLP ("Bond Counsel"), shall be necessary in connection

with the transactions on the part of the Authority contemplated by the Official Statement and the Authority Documents;

(iii) the Authority shall perform or have performed its obligations required as specified in the Authority Documents to be performed at or prior to Closing; and

(iv) the Official Statement shall not have been supplemented or amended, except pursuant to Paragraph 6(k), or as otherwise may have been agreed to in writing by the Underwriter.

(c) No Default. At the time of the Closing, no default shall have occurred or be existing under the Authority Documents and the Authority shall not be in default in the payment of principal or interest on any of its bonded indebtedness which default shall adversely impact the ability of the Authority to make payments on the Bonds.

(d) Termination Events. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the Authority if at any time at or prior to the Closing:

(i) 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

(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) The declaration of a general banking moratorium by federal, New York or State authorities, or the general suspension of trading by the New York Stock Exchange, any national securities exchange, or any governmental authority securities exchange or a material disruption in securities settlement, payment or clearance services affecting the Bonds shall have occurred; 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 the charge to the net capital requirements of the Underwriter established by the New York Stock Exchange, the Securities and Exchange Commission, any other Federal or state agency or the Congress of the United States, or by Executive Order; or

(vii) The occurrence of an adverse event in the affairs of the Authority which, in the reasonable judgement 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 tax status of the Authority, its property, income or securities (or interest thereon), or the ability of the Authority to issue the Bonds and pledge the Net Water 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 and in any such event, the effect of such event is, in the judgment of the Underwriter, to materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale, at the contemplated offering prices (or yields), of the Bonds; or

(x) There shall have occurred since the date of this Purchase Contract any materially adverse change in the affairs or financial position, results of operations or condition, financial or otherwise, of the Authority, other than changes in the ordinary course of business or activity or in the normal operation of the Authority, except as described in the Official Statement; or

(xi) Any proceeding shall have been commenced or be threatened in writing by the SEC against the Authority or the suspension by the SEC of trading in the outstanding securities of the Authority; or

(xii) The purchase of and payment for the Bonds by the Underwriter, or the resale of the Bonds by the Underwriter, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission; or

(xiii) Any rating of the Bonds or other obligations of the Authority by a national rating agency shall have been withdrawn or downgraded or placed on negative outlook or negative watch.

(e) Closing Documents. At or prior to the Closing, the Underwriter shall receive with respect to the Bonds (unless the context otherwise indicates) the following documents:

(1) Bond Opinion. The approving opinion of Bond Counsel dated the date of the Closing and substantially in the form included as APPENDIX F to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Authority, the Underwriter and the Trustee to the effect that the foregoing opinion may be relied upon by the Underwriter to the same extent as if such opinion was addressed to them.

(2) Supplemental Opinion. A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in substantially the form and to the following effect:

(i) The statements and information contained in the Official Statement on the cover page and under the captions "INTRODUCTION," "THE BONDS" (except for the information under the caption "Book Entry Only System"), "SECURITY FOR THE BONDS" and "TAX MATTERS," and in APPENDICES C and F, are true and accurate in all material respects; and

(ii) The Bonds are exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended;

(iii) The Purchase Contract has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes legal, valid and binding agreement of the Authority enforceable against the Authority 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 therein.

(3) Authority Counsel Opinion. An opinion of the Authority's General Counsel, dated as of the Closing and addressed to the Authority, the Trustee and the Underwriter, in form and substance acceptable to Bond Counsel and counsel for the Underwriter, to the following effect:

(i) the Authority is a joint exercise of powers agency, duly organized and validly existing under the Constitution and the laws of the State of California;

(ii) the preparation and distribution of the Preliminary Official Statement and the Official Statement and this Purchase Contract have been duly approved by the Authority;

(iii) the resolution of the Authority approving and authorizing the execution and delivery of the Official Statement, this Purchase Contract and the Authority Documents has been duly adopted at a meeting of the governing body of the Authority which was called and held pursuant to law, and with all public notice required by law and at which a quorum was present and acting throughout;

(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 have been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, 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) without having undertaken any independent inquiry, nothing has come to their attention which would lead them to believe that the information contained in the Official Statement in the Sections “INTRODUCTION – The Water Enterprise,” “THE SOUTH GATE UTILITY AUTHORITY,” “THE WATER ENTERPRISE” and “NO LITIGATION” 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.

(4) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Authority and the Underwriter, in form and substance acceptable to Bond Counsel and counsel for the Underwriter.

(5) Disclosure Counsel Opinion. A letter from Norton Rose Fulbright US LLP, disclosure counsel to the City (“Disclosure Counsel”), dated the Closing Date, addressed to the Underwriter and the Authority, to the effect that, based upon its participation in the preparation of the Preliminary Official Statement and the Official Statement as counsel to the Authority and without having undertaken to determine independently the fairness, accuracy, or completeness of the statements contained in the Official Statement, such counsel has no reason to believe that, that the Preliminary Official Statement (except for the completion of pricing information and any other matters or terms of the Bonds relating thereto) as of its date or as of November [ ], 2019 or the Official Statement as of its date or as of the date of the Closing (excluding therefrom (i) the expressions of opinion, the assumptions, the projections, estimates and forecasts, the charts, the financial statements or other financial, numerical, economic, demographic or statistical data, or assessed valuations contained in the Official Statement; (ii) any CUSIP numbers or information relating thereto; (iii) any information with respect to The Depository Trust Company and its book-entry system; (iv) any information contained in the appendices to the Official Statement; (v) any information incorporated by reference into the Official Statement; (vi) any information with respect to the underwriters or underwriting matters with respect to the Bonds, including but not limited to information under the caption “UNDERWRITING”; (vii) information under the captions “NO LITIGATION”; and (ix) any information with respect to the rating on the Bonds and the rating agency referenced therein, including but not limited to information under the caption “RATINGS”) 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.

(6) Authority Certificate. A certificate, dated the date of the Closing, signed by a duly authorized official of the Authority satisfactory in form and substance to the Underwriter, (a) confirming as of such date the representations and warranties of the Authority

contained in this Purchase Contract; (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; (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; and (d) certifying that the Authority has authorized and consented to the inclusion in the Official Statement of the City's financial report and accountant's opinion for the year ended June 30, 2018, and no further consent of any party is required for such inclusion.

(7) Trustee's and Escrow Agent Certificate. A Certificate of U.S. Bank, National Association, dated the date of Closing, addressed to the Authority and the Underwriter, in form and substance acceptable to counsel for the Underwriter to the following effect:

(i) U.S. Bank National Association 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 and the Escrow Agreements;

(ii) Subject to the provisions of the Indenture and the Escrow Agreement, U.S. Bank National Association will apply the proceeds from the Bonds to the purposes specified in the Indenture and the Escrow Agreements; and

(iii) U.S. Bank National Association has duly authorized and executed the Indenture and the Escrow Agreements, and authenticated the Bonds.

(8) Official Statement. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the Authority by a duly authorized officer of the Authority.

(9) Authority Documents. An original executed copy of each of the Authority Documents.

(10) Authority Resolution. A certified copy of the Resolution.

(11) IRS Form 8038-G. Evidence that the federal tax information form 8038-G has been prepared for filing.

(12) Nonarbitrage Certificate. A tax and nonarbitrage certificate in form satisfactory to Bond Counsel.

(13) Rating. Evidence that the Bonds have been rated as set forth in the Official Statement and that such rating continue in effect as of the Closing.



(14) CDIAC Statement. A copy of the Notice of Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 53583 of the Government Code and Section 8855(g) of the Government Code.

(15) Underwriter's Counsel Opinion. An opinion, dated the date of the Closing and addressed to the Underwriter, of Nixon Peabody LLP, counsel to the Underwriter, in such form as may be acceptable to the Underwriter.

(16) Certificate of Verification Agent. A letter addressed to the Underwriter, the Authority and Bond Counsel, dated the date of the Closing, from Causey Demgen & Moore, P.C. (the "Verification Agent"), verifying the accuracy of the mathematical computations concerning the adequacy of the moneys to be deposited with the Escrow Agent, to pay principal of and interest on the respective prior bonds as such payments become due and payable, and to redeem on the redemption date the remaining prior bonds at a redemption price equal to the principal amount thereof, together with interest accrued to the date of redemption, without premium.

(17) Additional Documents. Such additional certificates, instruments and other documents as the Underwriter may reasonably deem necessary.

If the Authority shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract may be terminated by the Underwriter, and neither the Underwriter nor the Authority shall be under any further obligation hereunder.

**9. Expenses.** The Underwriter shall be under no obligation to pay, and the Authority shall pay or cause to be paid, the expenses incident to the performance of the obligations of the Authority hereunder including but not limited to:

(a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Authority Documents and the cost of preparing, printing, issuing and delivering the Bonds;

(b) the fees and disbursements of any counsel, financial advisors, accountants or other experts or consultants retained by the Authority;

(c) the fees and disbursements of Bond Counsel, Disclosure Counsel and Underwriter's Counsel;

(d) the cost of preparation and printing the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement, including a reasonable number of copies thereof for distribution by the Underwriter;

(e) charges of rating agencies for the rating of the Bonds; and

(f) the expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds.

The Underwriter shall pay: (i) the cost of preparation and printing of any “blue sky” filings; (ii) all “blue sky” filing fees in connection with the public offering of the Bonds; (iii) fees, if any, payable to the California Debt and Investment Advisory Commission, the MSRB, the fees associated with obtaining CUSIP numbers for the Bonds, and fees of the Public Securities Association and the California Public Securities Association in connection with the execution and delivery of the Bonds; and (iv) all other expenses incurred by them in connection with the public offering of the Bonds not outlined in (a) through (f) above, including any advertising expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds. Any meals in connection with or adjacent to meetings, rating agency presentations, pricing activities or other transaction-related activities shall be considered an expense of the transaction and included in the expense component of the Underwriter’s discount. Some or all of the expenses to be paid by the Underwriter may be included as part of the expense component of the underwriting discount or commission or may be reimbursed to the Underwriter as out-of-pocket expenses.

**10. Notice.** Any notice or other communication to be given to the Underwriter may be given by delivering the same to Raymond James & Associates, Inc., 39 E. Union Street, Pasadena, California 91103, Attention: Jose Vera. Any notice or other communication to be given to the Authority pursuant to this Purchase Contract may be given by delivering the same in writing to such entity, at the address set forth on the first page hereof.

**11. Entire Agreement.** This Purchase Contract, when accepted by the Authority, shall constitute the entire agreement between the Authority and the Underwriter and is made solely for the benefit of the Authority and the Underwriter (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All the Authority’s representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriter, until the earlier of (a) delivery of and payment for the Bonds hereunder, and (b) any termination of this Purchase Contract.

**12. Counterparts.** This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

**13. Severability.** In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

**14. State of California Law Governs.** The validity, interpretation and performance of the Authority Documents shall be governed by the laws of the State.

**15. No Assignment.** The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the Authority without the prior written consent of the other parties hereto.

**16. Definitions.** Terms not otherwise defined herein shall have the same meaning as used in the Indenture.

**RAYMOND JAMES & ASSOCIATES, INC.,** as  
Underwriter

By: \_\_\_\_\_  
Authorized Representative

Accepted as of the date first stated above:

**SOUTH GATE UTILITY AUTHORITY**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Date of Execution: [\_\_\_\_], 2019

Time of Execution: \_\_\_\_\_

**EXHIBIT A**

**SOUTH GATE UTILITY AUTHORITY  
WATER REVENUE REFUNDING BONDS  
2019 SERIES A**

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>10% Test Satisfied*</u>	<u>10% Test Not Satisfied</u>	<u>Subject to Hold-The- Offering- Price Rule</u>
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**SOUTH GATE UTILITY AUTHORITY  
TAXABLE WATER REVENUE REFUNDING BONDS  
2019 SERIES A-T**

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
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## EXHIBIT B

### FORM OF ISSUE PRICE CERTIFICATE

**[to be confirmed by Bond Counsel]**

The undersigned, on behalf of Raymond James & Associates, Inc. (the “Underwriter”), hereby certifies as set forth below with respect to the sale and issuance of the South Gate Utility Authority Water Revenue Refunding Bonds, 2019 Series A (the “Bonds”).

1. *Sale of the Bonds.* As of the date of this certificate, for each Maturity of the Bonds, the first price at which at least 10% of such Maturity of the Bonds was sold to the Public is the respective price listed in Schedule A.
2. *Defined Terms.*

*Issuer* means South Gate Utility Authority.

*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.

*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.

*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 the Underwriter' 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 and with respect to compliance with the federal income tax rules affecting the Bonds, and by Norton Rose Fulbright US LLP 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.

RAYMOND JAMES & ASSOCIATES, INC.

By: \_\_\_\_\_  
Authorized Signatory

Dated: [ISSUE DATE]

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**2012 BONDS ESCROW AGREEMENT**

by and between the

**SOUTH GATE UTILITY AUTHORITY**

and

**U.S. BANK NATIONAL ASSOCIATION,  
as Escrow Agent and as Trustee**

Dated as of December 1, 2019

Relating to the defeasance of

South Gate Utility Authority  
Water Revenue Bonds, 2012 Series

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## 2012 BONDS ESCROW AGREEMENT

This 2012 BONDS ESCROW AGREEMENT (the “Agreement”), dated as of December 1, 2019, by and between the SOUTH GATE UTILITY AUTHORITY (the “Authority”), a joint exercise of powers agency duly organized and existing under the laws of the State of California, and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as escrow agent (the “Escrow Agent”) and as trustee for the 2012 Bonds (described below) (the “Trustee”);

### WITNESSETH:

**WHEREAS**, the Authority has previously issued its Water Revenue Bonds, 2012 Series (the “2012 Bonds”) pursuant to an Indenture of Trust, dated as of August 1, 2012 (the “2012 Indenture”), by and between the Authority and the Trustee; and

**WHEREAS**, the Authority desires to refund all of the currently outstanding 2012 Bonds (the “2012 Bonds”) from a portion of the proceeds of the Authority’s Water Revenue Refunding Bonds, 2019 Series A (the “Tax-Exempt Bonds”) and the Authority’s Taxable Water Revenue Refunding Bonds, 2019 Series A-T (the “Taxable Bonds”, and together with the Tax-Exempt Bonds, the “Bonds”); and

**NOW, THEREFORE**, in consideration of the mutual premises contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**SECTION 1.** As used herein, the following terms shall have the following meanings:

“Escrow Agent” means U.S. Bank National Association, and its successors and assigns, and any other corporation or institution that may at any time be substituted in its place as provided in Section 11 hereof.

“Escrow Securities” means non-calleable Federal Securities as defined in Section 10.03 of the 2012 Indenture deposited in the Serial Bonds Escrow Fund pursuant to Section 5 hereof.

“Serial Bonds” mean the 2012 Bonds other than the Term Bonds.

“Serial Bonds Escrow Fund” means the Serial Bonds Escrow Fund established and held by the Escrow Agent pursuant to Section 3 hereof.

“Serial Bonds Escrow Requirements” means an amount sufficient, together with investment proceeds, to pay principal of, redemption premium, if any, and interest on the Serial Bonds through and including the Serial Bonds Redemption Date, as set forth in Exhibit B hereto.

“Serial Bonds Redemption Date” means October 1, 2022, the date on which the Serial Bonds are to be redeemed.

“Term Bonds” mean the 2012 Bonds maturing on October 1, 2037.

“Term Bonds Escrow Fund” means the Term Bonds Escrow Fund established and held by the Escrow Agent pursuant to Section 3 hereof.

“Term Bonds Escrow Requirements” means an amount sufficient, together with investment proceeds, to pay principal of, redemption premium, if any, and interest on the Term Bonds through and including the Term Bonds Redemption Date, as set forth in Exhibit B hereto.

“Term Bonds Redemption Date” means January \_\_, 2020, the date on which the Term Bonds are to be redeemed.

“Verification Agent” means Causey Demgen & Moore, P.C.

“Verification Report” means the report prepared by the Verification Agent and attached hereto as Exhibit A.

**SECTION 2.** The Authority hereby appoints U.S. Bank National Association as Escrow Agent under this Agreement for the benefit of the holders of the 2012 Bonds. The Escrow Agent hereby accepts the duties and obligations of Escrow Agent under this Agreement and agrees that the irrevocable instructions to the Escrow Agent herein provided are in a form satisfactory to it. The applicable and necessary provisions of the 2012 Indenture, including particularly the redemption provisions thereof, are incorporated herein by reference. Reference herein to, or citation herein of, any provisions of the 2012 Indenture shall be deemed to incorporate the same as a part hereof in the same manner and with the same effect as if the same were fully set forth herein.

**SECTION 3.** Pursuant to this Agreement, there is created and established with the Escrow Agent special and irrevocable funds designated (a) the Serial Bonds Escrow Fund and (b) the Term Bonds Escrow Fund, to be held by the Escrow Agent separate and apart from all other funds and accounts, and used only for the purposes and in the manner provided in this Agreement.

**SECTION 4.**

(a) The Authority herewith deposits, or causes to be deposited, with the Escrow Agent into the Serial Bonds Escrow Fund, to be held by the Escrow Agent and to be applied solely as provided in this Agreement, the sum of \$\_\_\_\_\_, as follows:

(i) from the proceeds of the Taxable Bonds, the sum of \$\_\_\_\_\_; and

(ii) from moneys held by the Trustee pursuant to the 2012 Indenture in the debt service reserve fund, the sum of \$\_\_\_\_\_.

(b) The Authority herewith deposits, or causes to be deposited, with the Escrow Agent into the Term Bonds Escrow Fund, to be held by the Escrow Agent and to be applied solely as provided in this Agreement, the sum of \$\_\_\_\_\_, as follows:

(i) from the proceeds of the Tax-Exempt Bonds, the sum of \$\_\_\_\_\_; and

(ii) from moneys held by the Trustee pursuant to the 2012 Indenture in the debt service reserve fund, the sum of \$\_\_\_\_\_.

#### **SECTION 5.**

(a) The Escrow Agent acknowledges receipt of the moneys described in Section 4(a). The Escrow Agent agrees immediately to invest \$\_\_\_\_\_ of such amounts in the Escrow Securities set forth in Exhibit B-1 hereto, and to deposit such Escrow Securities in the Serial Bonds Escrow Fund, and to retain the amount of \$\_\_\_\_\_ in cash in the Serial Bonds Escrow Fund. The Escrow Agent shall not have the power to sell, transfer, request the redemption of or otherwise dispose of some or all of the Escrow Securities in the Serial Bonds Escrow Fund or to substitute other Escrow Securities therefor, except as may be required pursuant to the Verification Report. As the principal of the Escrow Securities shall mature and be paid, and the investment income and earnings thereon are paid, the Escrow Agent shall not reinvest such moneys, except as may be required pursuant to the Verification Report. Such amounts shall be applied by the Escrow Agent to the payment of the Serial Bonds Escrow Requirement for the equal and ratable benefit of the holders of the Serial Bonds as set forth in the Verification Report.

(b) The Escrow Agent acknowledges receipt of the moneys described in Section 4(b). The Escrow Agent agrees to retain the amount of \$\_\_\_\_\_ in cash in the Term Bonds Escrow Fund. Such amounts shall be applied by the Escrow Agent to the payment of the Term Bonds Escrow Requirement for the equal and ratable benefit of the holders of the Term Bonds as set forth in the Verification Report.

**SECTION 6.** The Authority hereby directs and the Escrow Agent hereby agrees that the Escrow Agent will take all the actions required to be taken by it hereunder, in order to effectuate this Agreement. The liability of the Escrow Agent for the payment of the Serial Bonds Escrow Requirements and the Term Bonds Escrow Agreement shall be limited to the application, in accordance with this Agreement, of the moneys and the principal amount of the Escrow Securities and investment earnings thereon available for such purposes in the Serial Bonds Escrow Fund and the Term Bonds Escrow Fund, respectively.

#### **SECTION 7.**

(a) The Authority irrevocably instructs the Escrow Agent (i) to pay to the Trustee, from amounts held in the Serial Bonds Escrow Fund, such amounts as are required for payment of principal and interest on the Serial Bonds due before the Serial Bonds Redemption Date, in the amount of \$\_\_\_\_\_; and (ii) to pay to the Trustee, from amounts held in the Serial Bonds Escrow Fund, the amount equal to the redemption price of the principal amount of the Serial Bonds called for redemption on the Serial Bonds Redemption Date, in the amount of \$\_\_\_\_\_. The Authority has caused schedules to be prepared relating to the sufficiency of the anticipated receipts from the Escrow Securities listed in Exhibit B-1 to pay the Serial Bonds Escrow Requirement. The Authority irrevocably instructs the Escrow Agent to mail a notice of defeasance of the Serial Bonds to The Depository Trust Company, Information

Services and the Owners of the Serial Bonds in the manner provided in the 2012 Indenture in the form attached hereto as Exhibit C. The Authority also irrevocably instructs the Trustee under the 2012 Indenture to mail a notice of redemption of the Serial Bonds as provided in Section 2.02 of the 2012 Indenture in substantially the form provided in Exhibit D-1 hereto and to pay said principal of and interest on and redemption price of the Serial Bonds to the owners of the Serial Bonds as provided in the 2012 Indenture.

(b) The Authority irrevocably instructs the Escrow Agent to pay to the Trustee, from amounts held in the Term Bonds Escrow Fund, the amount equal to the redemption price of the principal amount of the Term Bonds called for redemption on the Term Bonds Redemption Date as set forth in Exhibit B-2, in the amount of \$\_\_\_\_\_. The Authority irrevocably instructs the Escrow Agent to mail a notice of defeasance of the Term Bonds to The Depository Trust Company, Information Services and the Owners of the Term Bonds in the manner provided in the 2012 Indenture in the form attached hereto as Exhibit C. The Authority also irrevocably instructs the Trustee under the 2012 Indenture to mail a notice of redemption of the Term Bonds as provided in Section 2.02 of the 2012 Indenture in substantially the form provided in Exhibit D-2 hereto and to pay said principal of and interest on and redemption price of the Term Bonds to the owners of the Serial Term as provided in the 2012 Indenture.

**SECTION 8.** The funds hereby created shall be irrevocable and the holders of the 2012 Bonds shall have an express lien limited to all moneys and Escrow Securities, including the interest earning thereon, in the Serial Bonds Escrow Fund and Term Bonds Escrow Fund until paid out, used and applied in accordance with this Agreement.

**SECTION 9.** This Agreement is made pursuant to and in furtherance of the 2012 Indenture and for the benefit of the Authority and the holders from time to time of the 2012 Bonds and it shall not be repealed, revoked, altered, amended or supplemented without the written consent of all such holders and the written consent of the Escrow Agent, Trustee and the Authority; provided, however, that the Authority, the Trustee and the Escrow Agent may, without the consent of, or notice to, such holders enter into such amendments or supplements as shall not be inconsistent with the terms and provisions of this Agreement, for any one or more of the following purposes:

- (i) to cure an ambiguity or formal defect or omission in this Agreement;
- (ii) to grant to, or confer upon, the Escrow Agent for the benefit of the holders of the 2012 Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such holders or the Escrow Agent; and
- (iii) to transfer to the Escrow Agent and make subject to this Agreement additional funds, securities or properties.

**SECTION 10.** The Escrow Agent and Trustee shall be entitled to conclusively rely upon the Verification Report, and upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section, including the extent, if any, to which any change, modification or addition affects the rights of the holders of the 2012 Bonds, or that any instrument executed hereunder complies with the conditions and provisions of this Section.

**SECTION 11.** In consideration of the services rendered by the Escrow Agent under this Agreement, the Authority agrees to and shall pay to the Escrow Agent its fees, plus expenses, including all reasonable expenses, charges, counsel fees and expenses and other disbursements incurred by it or by its attorneys, agents and employees in and about the performance of their powers and duties hereunder, and the Escrow Agent shall have no lien whatsoever upon any of the moneys or Escrow Securities in the Serial Bond Escrow Fund or the Term Bonds Escrow Fund for the payment of such proper fees and expenses.

The Escrow Agent at the time acting hereunder may at any time resign and be discharged from the trusts hereby created by giving not less than 60 days' written notice to the Authority and the Trustee, specifying the date when such resignation will take effect in the same manner as a notice is to be mailed pursuant to Section 7 hereof, but no such resignation shall take effect unless a successor Escrow Agent shall have been appointed by the holders of the 2012 Bonds or by the Authority as hereinafter provided and such successor Escrow Agent shall have accepted such appointment, in which event such resignation shall take effect immediately upon the appointment and acceptance of a successor Escrow Agent.

The Escrow Agent may be removed at any time by an instrument or concurrent instruments in writing, delivered to the Escrow Agent and to the Authority and the Trustee and signed by the holders of a majority in principal amount of the 2012 Bonds.

In the event the Escrow Agent hereunder shall resign or be removed, or be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in the case the Escrow Agent shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor Escrow Agent may be appointed by the holders of a majority in principal amount of the 2012 Bonds, by an instrument or concurrent instruments in writing, signed by such holders, or by their attorneys-in-fact, duly authorized in writing; provided, nevertheless, that in any such event, the Authority shall appoint a temporary Escrow Agent to fill such vacancy until a successor Escrow Agent shall be appointed by the holders of a majority in principal amount of the 2012 Bonds, and any such temporary Escrow Agent so appointed by the Authority shall immediately and without further act be superseded by the Escrow Agent so appointed by such holders.

In the event that no appointment of a successor Escrow Agent or a temporary successor Escrow Agent shall have been made by such holders or the Authority pursuant to the foregoing provisions of this Section within 60 days after written notice of the removal or resignation of the Escrow Agent has been given to the Authority, the holder of any of the 2012 Bonds or any retiring Escrow Agent may apply to any court of competent jurisdiction for the appointment of a successor Escrow Agent, and such court may thereupon, after such notice, if any, as it shall deem proper, appoint a successor Escrow Agent.

No successor Escrow Agent shall be appointed unless such successor Escrow Agent shall be a corporation or institution with trust powers organized under the financial institution laws of the United States or any state, and shall have at the time of appointment capital and surplus of not less than \$50,000,000. For purpose of this Section 11, a corporation or institution with trust powers organized under the financial institution laws of the United States of America or any state shall be deemed to have combined capital and surplus of at least

\$50,000,000 if it has a combined capital surplus of at least \$20,000,000 and is a wholly-owned subsidiary of a corporation having a combined capital and surplus of at least \$50,000,000.

Every successor Escrow Agent appointed hereunder shall execute, acknowledge and deliver to its predecessor and to the Authority, an instrument in writing accepting such appointment hereunder and thereupon such successor Escrow Agent without any further act, deed or conveyance, shall become fully vested with all the rights, immunities, powers, trust, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of such successor Escrow Agent or the Authority execute and deliver an instrument transferring to such successor Escrow Agent all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Escrow Agent shall deliver all moneys and Escrow Securities held by it to its successor. Should any transfer, assignment or instrument in writing from the Authority be required by any successor Escrow Agent for more fully and certainly vesting in such successor Escrow Agent the estates, rights, powers and duties hereby vested or intended to be vested in the predecessor Escrow Agent, any such transfer, assignment and instrument in writing shall, on request, be executed, acknowledged and delivered by the Authority.

Any corporation or association into which the Escrow Agent, or any successor to it in the trusts created by this Agreement, may be merged or converted or with which it or any successor to it may be consolidated, or any corporation resulting from any merger, conversion, consolidation or reorganization to which the Escrow Agent or any successor to it shall be a party or any successor to a substantial portion of the Escrow Agent's corporate trust business, shall, if it meets the qualifications set forth in the fifth paragraph of this Section, be the successor Escrow Agent under this Agreement without the execution or filing of any paper or any other act on the part of any of the parties hereto, anything herein to the contrary notwithstanding. The liability of the Escrow Agent to make payments required in the Agreement shall be limited to the moneys and Escrow Securities in the Serial Bonds Escrow Fund and the Term Bonds Escrow Fund.

**SECTION 12.** The Escrow Agent shall have no power or duty to invest any funds held under this Agreement except as provided in Sections 5 and 6 hereof. The Escrow Agent shall have no power or duty to transfer or otherwise dispose of the moneys held hereunder except as provided in this Agreement.

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

**SECTION 13.** To the extent permitted by law, the Authority hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its

successors, assigns, agents, officers, directors, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the Authority or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Agreement, the establishment hereunder of the Serial Bonds Escrow Fund or the Term Bonds Escrow Fund, the acceptance of the funds and securities deposited therein, the purchase of any securities to be purchased pursuant thereto, the retention of such securities or the proceeds thereof and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Agreement. The Authority shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's successors, assigns, agents and employees or the material breach by the Escrow Agent of the terms of this Agreement. In no event shall the Authority or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Agreement and the resignation or removal of the Escrow Agent.

**SECTION 14.** The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the Authority, and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the sufficiency of the securities to be purchased pursuant hereto and any uninvested moneys to accomplish the redemption of the 2012 Bonds pursuant to the 2012 Indenture or to the validity of this Agreement as to the Authority and, except as otherwise provided herein, the Escrow Agent shall incur no liability in respect thereof. The Escrow Agent shall not be liable in connection with the performance of its duties under this Agreement except for its own negligence or willful misconduct, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Agreement. The Escrow Agent may consult with counsel, who may or may not be counsel to the Authority, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter (except the matters set forth herein as specifically requiring a certificate of a nationally recognized firm of independent certified public accountants or an opinion of nationally recognized bond counsel) may be deemed to be conclusively established by a written certification of the Authority. Whenever the Escrow Agent shall deem it necessary or desirable that a matter specifically requiring a certificate of a nationally recognized firm of independent certified public accountants or an opinion of nationally recognized bond counsel be proved or established prior to taking, suffering, or omitting any such action, such matter may be established only by such a certificate or such an opinion. The Escrow Agent shall incur no liability for losses arising from any investment made pursuant to this Agreement.

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

**SECTION 15.** This Agreement shall terminate upon payment of all 2012 Bonds on the Redemption Date. Upon such termination, all moneys remaining in the Serial Bonds Escrow Fund and the Term Bonds Escrow Fund after payment of all fees and expenses of the Escrow Agent shall be released to the Authority.

**SECTION 16.** This Agreement is made in the State of California under the Constitution and laws of the State of California and is to so be construed.

**SECTION 17.** If any one or more of the covenants or agreements provided in this Agreement on the part of the Authority, the Trustee or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenant or agreement shall be deemed and construed to be severable from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

All the covenants, promises and agreements in this Agreement contained by or on behalf of the Authority or by or on behalf of the Trustee or the Escrow Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

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



IN WITNESS WHEREOF, the parties hereto have caused this 2012 Term Bond Escrow Agreement to be executed by their duly authorized officers as of the date first-above written.

SOUTH GATE UTILITY AUTHORITY

By \_\_\_\_\_  
Executive Director

U.S. BANK NATIONAL ASSOCIATION,  
as Escrow Agent and as Trustee

By \_\_\_\_\_  
Authorized Officer

**Exhibit A**  
**Verification Report**

**Exhibit B-1**

**SERIAL BONDS ESCROW SCHEDULE  
and  
SCHEDULE OF ESCROW SECURITIES**

**Serial Bonds Escrow Schedule**

**Schedule of Escrow Securities**

<b>Type</b>	<b>Settlement Date</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Coupon Rate</b>	<b>Price</b>	<b>Total Cost</b>
			<hr/>			<hr/>
			<hr/>			<hr/>

**Escrow Cash Flow**

**Exhibit B-2**

**TERM BONDS ESCROW SCHEDULE  
and  
SCHEDULE OF ESCROW SECURITIES**

**Term Bonds Escrow Schedule**

<b>Payment Date</b>	<b>Rate</b>	<b>Payment For</b>		<b>Total</b>
		<b>Principal Redeemed</b>	<b>Interest</b>	

**Escrow Cash Flow**

**Exhibit C**

**Form of Notice of Defeasance**

**NOTICE OF DEFEASANCE TO THE OWNERS OF  
SOUTH GATE UTILITY AUTHORITY  
WATER REVENUE BONDS, 2012 SERIES**

**NOTICE IS HEREBY GIVEN** to the owners of the above-captioned bonds that with respect to such bonds as specified in the table below (the “Bonds”) that the South Gate Utility Authority (the “Authority”) has deposited with U.S. Bank National Association, as Escrow Agent (the “Escrow Agent”) for the Bonds, cash and/or direct non-callable obligations of the United States of America, securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee of the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS and/or defeased municipal bonds rated AAA by S&P or Aaa by Moody’s, satisfying the criteria set forth in the Indenture of Trust, dated as of August 1, 2012 (the “2012 Indenture”), by and between U.S. Bank National Association, as trustee (the “Trustee”), and the Authority, pursuant to which the Bonds were issued, the principal of and interest thereon which when due, together with amounts held as cash, will provide moneys sufficient (i) to pay on January \_\_\_\_, 2020 the redemption price (*i.e.*, 100% of the principal amount thereof) of the Bonds maturing on October 1, 2037, (ii) to pay principal of and interest on the remaining Bonds (“the Serial Bonds”) through and including April 1, 2022, (iii) to pay on October 1, 2022 the redemption price of the Serial Bonds. In accordance with the 2012 Indenture, all obligations of the Authority and the Trustee with respect to the Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid all payments of interest on and principal of the Bonds from moneys on deposit with the Escrow Agent and available as aforesaid.

<b><u>Maturity Date</u></b> <b><u>(October 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>CUSIP<sup>†</sup> Number</u></b>
2020	\$ 260,000	83789TAH2
2021	1,450,000	83789TAJ8
2022	1,510,000	83789TAK5
2023	1,570,000	83789TAL3
2024	1,655,000	83789TAMI
2025	1,740,000	83789TAN9
2026	1,830,000	83789TAP4
2027	1,925,000	83789TAQ2
2028	2,030,000	83789TARO
2029	2,135,000	83789TAS8
2030	2,220,000	83789TAT6
2031	2,310,000	83789TAU3
2032	2,400,000	83789TAVI
2037	9,710,000	83789TAW9

DATED: December \_\_\_\_, 2019

SOUTH GATE UTILITY AUTHORITY

By: U.S. BANK NATIONAL ASSOCIATION, as  
Escrow Agent

**Exhibit D-1**

**Form of Notice of Optional Redemption**

**SOUTH GATE UTILITY AUTHORITY  
WATER REVENUE BONDS, 2012 SERIES  
Serial Bonds**

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Bonds that a portion of the outstanding South Gate Utility Authority, Water Revenue Bonds, 2012 Series, consisting of the Serial Bonds listed below (the "2012 Serial Bonds"), issued pursuant to an Indenture of Trust, dated as of August 1, 2012 (the "2012 Indenture"), by and between U.S. Bank National Association, as trustee (the "Trustee"), and the South Gate Utility Authority (the "Authority"), and are scheduled for redemption on October 1, 2022 (the "Redemption Date"), pursuant to the provisions of the 2012 Indenture.

The 2012 Serial Bonds called for redemption have the maturity date, principal component, CUSIP Number and redemption price as set forth below:

<u>Principal</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Redemption Price</u>	<u>*CUSIP No.</u>
\$1,570,000	10/01/23	5.250%	100%	83789TAL3
1,655,000	10/01/24	5.250	100	83789TAMI
1,740,000	10/01/25	5.250	100	83789TAN9
1,830,000	10/01/26	5.250	100	83789TAP4
1,925,000	10/01/27	5.250	100	83789TAQ2
2,030,000	10/01/28	5.250	100	83789TARO
2,135,000	10/01/29	4.000	100	83789TAS8
2,220,000	10/01/30	4.000	100	83789TAT6
2,310,000	10/01/31	4.000	100	83789TAU3
2,400,000	10/01/32	5.000	100	83789TAVI

Payment of the Redemption Price on the 2012 Serial Bonds called for redemption will become due and payable on the Redemption Date upon presentation and surrender thereof in the following manner:

**If by Hand, Mail or Overnight: (REGISTERED BONDS)**

**U.S. Bank National Association  
Global Corporate Trust Services  
111 Fillmore Avenue E.  
St. Paul MN 55107**

**Bondholder Communication: 800-934-6802**

Bondholders presenting their certificates in person for same day payment must surrender their certificate(s) by 1:00 P.M. on the Redemption Date and a check will be available for pick up after 2:00 P.M.. Checks not picked up by 4:30 P.M. will be mailed out to the bondholders via first class mail. If payment of the Redemption Price is to be made to the registered owner of the 2012 Serial Bond, you are not required to endorse the 2012 Serial Bond to collect the Redemption Price.

Interest on the principal amount designated to be prepaid shall cease to accrue on and after the Redemption Date.

**IMPORTANT NOTICE**

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, federal backup withholding tax will be withheld at the applicable backup withholding rate in effect at the time the payment is made if the tax identification number is not properly certified.

\*The Trustee shall not be held responsible for the selection or use of the CUSIP number, nor is any representation made as to its correctness indicated in the Redemption Notice. It is included solely for convenience of the Holders.

Failure to receive this Notice of Optional Redemption or any immaterial defect contained herein shall not affect the sufficiency of the redemption proceedings as provided in the 2012 Indenture.

**By U.S. Bank National Association,**  
as Trustee

**Dated: on or before August \_\_, 2022**

Exhibit D-2

Form of Conditional Notice of Optional Redemption

**SOUTH GATE UTILITY AUTHORITY  
WATER REVENUE BONDS, 2012 SERIES  
Term Bonds Maturing October 1, 2037**

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Bonds that a portion of the outstanding South Gate Utility Authority, Water Revenue Bonds, 2012 Series, consisting of the Term Bonds maturing October 1, 2037 (the "2012 Term Bonds"), issued pursuant to an Indenture of Trust, dated as of August 1, 2012 (the "2012 Indenture"), by and between U.S. Bank National Association, as trustee (the "Trustee"), and the South Gate Utility Authority (the "Authority"), and are scheduled for redemption on January \_\_, 2020 (the "Redemption Date"), pursuant to the provisions of the 2012 Indenture.

The redemption of the 2012 Term Bonds described herein is expressly conditioned upon the issuance of the South Gate Utility Authority, Water Revenue Refunding Bonds, 2019 Series A (the "2019 Series A Bonds"), which will provide the funds necessary to pay the redemption price of the 2012 Term Bonds. If the 2019 Series A Bonds are not issued on or before the Redemption Date, then this notice and the redemption of the 2012 Term Bonds shall be rescinded and the 2012 Term Bonds shall continue to remain outstanding under the 2012 Indenture.

In the event such funds are not received by the Redemption Date, this notice shall be null and void and of no force and effect. The 2012 Term Bonds delivered for redemption shall be returned to the respective owners thereof, and said 2012 Term Bonds shall remain outstanding as though this Conditional Notice of Optional Redemption had not been given. Notice of a failure to receive funds, and cancellation of this redemption, shall be given by U.S. Bank National Association (the "Paying Agent") by publication in Munifacts wire and by first class mail, postage prepaid, to the registered holders of the 2012 Term Bonds.

The 2012 Term Bonds called for redemption have the maturity date, principal component, CUSIP Number and redemption price as set forth below:

<u>Principal</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Redemption Price</u>	<u>*CUSIP No.</u>
\$9,710,000	10/01/2037	4.25%	100%	83789TAW9

Payment of the Redemption Price on the 2012 Term Bonds called for redemption will become due and payable on the Redemption Date upon presentation and surrender thereof in the following manner:

**If by Hand, Mail or Overnight: (REGISTERED BONDS)**

**U.S. Bank National Association  
Global Corporate Trust Services  
111 Fillmore Avenue E.  
St. Paul MN 55107**



**Bondholder Communication: 800-934-6802**

Bondholders presenting their certificates in person for same day payment **must** surrender their certificate(s) by 1:00 P.M. on the Redemption Date and a check will be available for pick up after 2:00 P.M.. Checks not picked up by 4:30 P.M. will be mailed out to the bondholders via first class mail. If payment of the Redemption Price is to be made to the registered owner of the 2012 Term Bond, you are not required to endorse the 2012 Term Bond to collect the Redemption Price.

Interest on the principal amount designated to be prepaid shall cease to accrue on and after the Redemption Date.

**IMPORTANT NOTICE**

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, federal backup withholding tax will be withheld at the applicable backup withholding rate in effect at the time the payment is made if the tax identification number is not properly certified.

\*The Trustee shall not be held responsible for the selection or use of the CUSIP number, nor is any representation made as to its correctness indicated in the Redemption Notice. It is included solely for convenience of the Holders.

Failure to receive this Notice of Optional Redemption or any immaterial defect contained herein shall not affect the sufficiency of the redemption proceedings as provided in the 2012 Indenture.

**By U.S. Bank National Association,**  
as Trustee

**Dated: on or before December \_\_, 2019**

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2001 CAB ESCROW AGREEMENT

by and between the

SOUTH GATE UTILITY AUTHORITY

and

U.S. BANK NATIONAL ASSOCIATION,  
as Escrow Agent and as Trustee

Dated December \_\_\_\_, 2019

Relating to the defeasance of

South Gate Utility Authority  
Subordinate Revenue Bonds, 2001 Series  
(Water and Sewer System Projects)

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## 2001 CAB ESCROW AGREEMENT

This 2001 CAB ESCROW AGREEMENT (the "Agreement"), dated December \_\_\_\_\_, 2019, by and between the SOUTH GATE UTILITY AUTHORITY (the "Authority"), a joint exercise of powers agency duly organized and existing under the laws of the State of California, and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as escrow agent (the "Escrow Agent") and as trustee for the Defeased 2001 Bonds (described below) (the "Trustee");

### WITNESSETH:

**WHEREAS**, the Authority has previously issued its Subordinate Revenue Bonds, 2001 Series (Water and Sewer System Projects) (the "2001 Bonds") pursuant to an Indenture of Trust, dated as of November 1, 2001 (the "2001 Indenture"), by and between the Authority and the Trustee; and

**WHEREAS**, sufficient funds are on deposit in the 2001 Series Reserve Account held by the Trustee under the 2001 Indenture to cause the defeasance of all of the 2001 Bonds, including all outstanding capital appreciation bonds secured by revenues from the Water Enterprise, maturing on October 1, 2020 (the "Defeased CAB Bonds");

**NOW, THEREFORE**, in consideration of the mutual premises contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**SECTION 1.** As used herein, the following terms shall have the following meanings:

"Defeased CAB Bonds" mean the capital appreciation bonds secured by revenues of the Water Enterprise maturing on October 1, 2020.

"Escrow Agent" means U.S. Bank National Association, and its successors and assigns, and any other corporation or institution that may at any time be substituted in its place as provided in Section 11 hereof.

"Escrow Fund" means the Escrow Fund established and held by the Escrow Agent pursuant to Section 3 hereof.

"Escrow Requirements" means an amount sufficient, together with investment proceeds, to pay the Maturity Amount of the Defeased CAB Bonds on the Payment Date, as set forth in Exhibit B hereto.

"Escrow Securities" means non-calleable Federal Securities as defined in Section 10.03 of the 2001 Indenture deposited in the Escrow Fund pursuant to Section 5 hereof.

"Payment Date" means October 1, 2020.

“Verification Agent” means Causey Demgen & Moore, P.C.

“Verification Report” means the report prepared by the Verification Agent and attached hereto as Exhibit A.

**SECTION 2.** The Authority hereby appoints U.S. Bank National Association as Escrow Agent under this Agreement for the benefit of the holders of the Defeased CAB Bonds. The Escrow Agent hereby accepts the duties and obligations of Escrow Agent under this Agreement and agrees that the irrevocable instructions to the Escrow Agent herein provided are in a form satisfactory to it. The applicable and necessary provisions of the 2001 Indenture, including particularly the redemption provisions thereof, are incorporated herein by reference. Reference herein to, or citation herein of, any provisions of the 2001 Indenture shall be deemed to incorporate the same as a part hereof in the same manner and with the same effect as if the same were fully set forth herein.

**SECTION 3.** Pursuant to this Agreement, there is created and established with the Escrow Agent a special and irrevocable fund designated the Escrow Fund, to be held by the Escrow Agent separate and apart from all other funds and accounts, and used only for the purposes and in the manner provided in this Agreement.

**SECTION 4.** The Authority herewith deposits, or causes to be deposited, with the Escrow Agent into the Escrow Fund, to be held by the Escrow Agent and to be applied solely as provided in this Agreement, the sum of \$ \_\_\_\_\_, from moneys held by the Trustee in the Reserve Account for the 2001 Bonds, and \_\_\_\_\_.

**SECTION 5.** The Escrow Agent acknowledges receipt of the moneys described in Section 4. The Escrow Agent agrees immediately to invest \$ \_\_\_\_\_ of such amounts in the Escrow Securities set forth in Exhibit B hereto, and to deposit such Escrow Securities in the Escrow Fund, and to retain the amount of \$ \_\_\_\_\_ in cash in the Escrow Fund. The Escrow Agent shall not have the power to sell, transfer, request the redemption of or otherwise dispose of some or all of the Escrow Securities in the Escrow Fund or to substitute other Escrow Securities therefor, except as may be required pursuant to the Verification Report. As the principal of the Escrow Securities shall mature and be paid, and the investment income and earnings thereon are paid, the Escrow Agent shall not reinvest such moneys, except as may be required pursuant to the Verification Report. Such amounts shall be applied by the Escrow Agent to the payment of the Escrow Requirement for the equal and ratable benefit of the holders of the Defeased CAB Bonds as set forth in the Verification Report.

**SECTION 6.** The Authority hereby directs and the Escrow Agent hereby agrees that the Escrow Agent will take all the actions required to be taken by it hereunder, in order to effectuate this Agreement. The liability of the Escrow Agent for the payment of the Escrow Requirements shall be limited to the application, in accordance with this Agreement, of the moneys and the principal amount of the Escrow Securities and investment earnings thereon available for such purposes in the Escrow Fund.

**SECTION 7.** The Authority irrevocably instructs the Escrow Agent to pay to the Trustee on or before October 1, 2020, from amounts held in the Escrow Fund, the amount equal

to the maturity amount of the Defeased CAB Bonds maturing on October 1, 2020, in the amount of \$\_\_\_\_\_. The Authority has caused schedules to be prepared relating to the sufficiency of the anticipated receipts from the Escrow Securities listed in Exhibit B to pay the Escrow Requirement. The Authority irrevocably instructs the Escrow Agent to mail a notice of defeasance of the Defeased CAB Bonds to The Depository Trust Company, Information Services and the Owners of the Defeased CAB Bonds in the manner provided in the 2001 Indenture in the form attached hereto as Exhibit B. The Authority also irrevocably instructs the Trustee under the 2001 Indenture to pay said maturity amount of the Defeased CAB Bonds to the owners of the Defeased CAB Bonds as provided in the 2001 Indenture.

**SECTION 8.** The fund hereby created shall be irrevocable and the holders of the Defeased CAB Bonds shall have an express lien limited to all moneys and Escrow Securities, including the interest earning thereon, in the Escrow Fund until paid out, used and applied in accordance with this Agreement.

**SECTION 9.** This Agreement is made pursuant to and in furtherance of the 2001 Indenture and for the benefit of the Authority and the holders from time to time of the Defeased CAB Bonds and it shall not be repealed, revoked, altered, amended or supplemented without the written consent of all such holders and the written consent of the Escrow Agent, Trustee and the Authority; provided, however, that the Authority, the Trustee and the Escrow Agent may, without the consent of, or notice to, such holders enter into such amendments or supplements as shall not be inconsistent with the terms and provisions of this Agreement, for any one or more of the following purposes:

- (i) to cure an ambiguity or formal defect or omission in this Agreement;
- (ii) to grant to, or confer upon, the Escrow Agent for the benefit of the holders of the Defeased CAB Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such holders or the Escrow Agent; and
- (iii) to transfer to the Escrow Agent and make subject to this Agreement additional funds, securities or properties.

**SECTION 10.** The Escrow Agent and Trustee shall be entitled to conclusively rely upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section, including the extent, if any, to which any change, modification or addition affects the rights of the holders of the Defeased CAB Bonds, or that any instrument executed hereunder complies with the conditions and provisions of this Section.

**SECTION 11.** In consideration of the services rendered by the Escrow Agent under this Agreement, the Authority agrees to and shall pay to the Escrow Agent its fees, plus expenses, including all reasonable expenses, charges, counsel fees and expenses and other disbursements incurred by it or by its attorneys, agents and employees in and about the performance of their powers and duties hereunder, and the Escrow Agent shall have no lien whatsoever upon any of the moneys or Escrow Securities in the Escrow Fund for the payment of such proper fees and expenses.

The Escrow Agent at the time acting hereunder may at any time resign and be discharged from the trusts hereby created by giving not less than 60 days' written notice to the Authority and the Trustee, specifying the date when such resignation will take effect in the same manner as a notice is to be mailed pursuant to Section 7 hereof, but no such resignation shall take effect unless a successor Escrow Agent shall have been appointed by the holders of the Defeased CAB Bonds or by the Authority as hereinafter provided and such successor Escrow Agent shall have accepted such appointment, in which event such resignation shall take effect immediately upon the appointment and acceptance of a successor Escrow Agent.

The Escrow Agent may be removed at any time by an instrument or concurrent instruments in writing, delivered to the Escrow Agent and to the Authority and the Trustee and signed by the holders of a majority in principal amount of the Defeased CAB Bonds.

In the event the Escrow Agent hereunder shall resign or be removed, or be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in the case the Escrow Agent shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor Escrow Agent may be appointed by the holders of a majority in principal amount of the Defeased CAB Bonds, by an instrument or concurrent instruments in writing, signed by such holders, or by their attorneys-in-fact, duly authorized in writing; provided, nevertheless, that in any such event, the Authority shall appoint a temporary Escrow Agent to fill such vacancy until a successor Escrow Agent shall be appointed by the holders of a majority in principal amount of the Defeased CAB Bonds, and any such temporary Escrow Agent so appointed by the Authority shall immediately and without further act be superseded by the Escrow Agent so appointed by such holders.

In the event that no appointment of a successor Escrow Agent or a temporary successor Escrow Agent shall have been made by such holders or the Authority pursuant to the foregoing provisions of this Section within 60 days after written notice of the removal or resignation of the Escrow Agent has been given to the Authority, the holder of any of the Defeased CAB Bonds or any retiring Escrow Agent may apply to any court of competent jurisdiction for the appointment of a successor Escrow Agent, and such court may thereupon, after such notice, if any, as it shall deem proper, appoint a successor Escrow Agent.

No successor Escrow Agent shall be appointed unless such successor Escrow Agent shall be a corporation or institution with trust powers organized under the financial institution laws of the United States or any state, and shall have at the time of appointment capital and surplus of not less than \$50,000,000. For purpose of this Section 11, a corporation or institution with trust powers organized under the financial institution laws of the United States of America or any state shall be deemed to have combined capital and surplus of at least \$50,000,000 if it has a combined capital surplus of at least \$20,000,000 and is a wholly-owned subsidiary of a corporation having a combined capital and surplus of at least \$50,000,000.

Every successor Escrow Agent appointed hereunder shall execute, acknowledge and deliver to its predecessor and to the Authority, an instrument in writing accepting such appointment hereunder and thereupon such successor Escrow Agent without any further act, deed or conveyance, shall become fully vested with all the rights, immunities, powers, trust, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written

request of such successor Escrow Agent or the Authority execute and deliver an instrument transferring to such successor Escrow Agent all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Escrow Agent shall deliver all moneys and Escrow Securities held by it to its successor. Should any transfer, assignment or instrument in writing from the Authority be required by any successor Escrow Agent for more fully and certainly vesting in such successor Escrow Agent the estates, rights, powers and duties hereby vested or intended to be vested in the predecessor Escrow Agent, any such transfer, assignment and instrument in writing shall, on request, be executed, acknowledged and delivered by the Authority.

Any corporation or association into which the Escrow Agent, or any successor to it in the trusts created by this Agreement, may be merged or converted or with which it or any successor to it may be consolidated, or any corporation resulting from any merger, conversion, consolidation or reorganization to which the Escrow Agent or any successor to it shall be a party or any successor to a substantial portion of the Escrow Agent's corporate trust business, shall, if it meets the qualifications set forth in the fifth paragraph of this Section, be the successor Escrow Agent under this Agreement without the execution or filing of any paper or any other act on the part of any of the parties hereto, anything herein to the contrary notwithstanding. The liability of the Escrow Agent to make payments required in the Agreement shall be limited to the moneys and Escrow Securities in the Escrow Fund.

**SECTION 12.** The Escrow Agent shall have no power or duty to invest any funds held under this Agreement except as provided in Sections 5 and 6 hereof. The Escrow Agent shall have no power or duty to transfer or otherwise dispose of the moneys held hereunder except as provided in this Agreement.

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

**SECTION 13.** To the extent permitted by law, the Authority hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its successors, assigns, agents, officers, directors, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the Authority or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds and securities deposited therein, the

purchase of any securities to be purchased pursuant thereto, the retention of such securities or the proceeds thereof and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Agreement. The Authority shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's successors, assigns, agents and employees or the material breach by the Escrow Agent of the terms of this Agreement. In no event shall the Authority or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Agreement and the resignation or removal of the Escrow Agent.

**SECTION 14.** The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the Authority, and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the sufficiency of the securities to be purchased pursuant hereto and any uninvested moneys to accomplish the redemption of the Defeased CAB Bonds pursuant to the 2001 Indenture or to the validity of this Agreement as to the Authority and, except as otherwise provided herein, the Escrow Agent shall incur no liability in respect thereof. The Escrow Agent shall not be liable in connection with the performance of its duties under this Agreement except for its own negligence or willful misconduct, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Agreement. The Escrow Agent may consult with counsel, who may or may not be counsel to the Authority, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter (except the matters set forth herein as specifically requiring a certificate of a nationally recognized firm of independent certified public accountants or an opinion of nationally recognized bond counsel) may be deemed to be conclusively established by a written certification of the Authority. Whenever the Escrow Agent shall deem it necessary or desirable that a matter specifically requiring a certificate of a nationally recognized firm of independent certified public accountants or an opinion of nationally recognized bond counsel be proved or established prior to taking, suffering, or omitting any such action, such matter may be established only by such a certificate or such an opinion. The Escrow Agent shall incur no liability for losses arising from any investment made pursuant to this Agreement.

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

**SECTION 15.** This Agreement shall terminate upon payment of all Defeased CAB Bonds on the Redemption Date. Upon such termination, all moneys remaining in the Escrow Fund after payment of all fees and expenses of the Escrow Agent shall be released to the Authority.

**SECTION 16.** This Agreement is made in the State of California under the Constitution and laws of the State of California and is to so be construed.



**SECTION 17.** If any one or more of the covenants or agreements provided in this Agreement on the part of the Authority, the Trustee or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenant or agreement shall be deemed and construed to be severable from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

All the covenants, promises and agreements in this Agreement contained by or on behalf of the Authority or by or on behalf of the Trustee or the Escrow Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

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

IN WITNESS WHEREOF, the parties hereto have caused this 2001 CAB Escrow Agreement to be executed by their duly authorized officers as of the date first-above written.

SOUTH GATE UTILITY AUTHORITY

By \_\_\_\_\_  
Executive Director

U.S. BANK NATIONAL ASSOCIATION,  
as Escrow Agent and as Trustee

By \_\_\_\_\_  
Authorized Officer

**Exhibit A**  
**VERIFICATION REPORT**

**Exhibit B**

**ESCROW SCHEDULE  
and  
SCHEDULE OF ESCROW SECURITIES**

**Escrow Schedule**

<b>Payment Date</b>	<b>Rate</b>	<b>Maturity Amount</b>
01-Oct-20		

**Schedule of Escrow Securities**

<b>Type</b>	<b>Settlement Date</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Coupon Rate</b>	<b>Price</b>	<b>Total Cost</b>

**Escrow Cash Flow**

**Exhibit C**

**Form of Notice of Defeasance**

**NOTICE OF DEFEASANCE TO THE OWNERS OF  
SOUTH GATE UTILITY AUTHORITY  
SUBORDINATE WATER REVENUE BONDS, 2001 SERIES  
(WATER AND SEWER SYSTEM PROJECTS)**

**NOTICE IS HEREBY GIVEN** to the owners of the above-captioned bonds that with respect to such bonds as specified in the table below (the "Bonds") that the South Gate Utility Authority (the "Authority") has deposited with U.S. Bank National Association, as Escrow Agent (the "Escrow Agent") for the Bonds, cash and/or direct non-callable obligations of the United States of America, securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee of the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS and/or defeased municipal bonds rated AAA by S&P or Aaa by Moody's, satisfying the criteria set forth in the Indenture of Trust, dated as of November 1, 2001 (the "2001 Indenture"), by and between U.S. Bank National Association, as trustee (the "Trustee"), and the Authority, pursuant to which the Bonds were issued, the principal of and interest thereon which when due, together with amounts held as cash, will provide moneys sufficient to when due the Maturity Amount of the Bonds. In accordance with the 2001 Indenture, all obligations of the Authority and the Trustee with respect to the Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid the Maturity Amount of the Bonds from moneys on deposit with the Escrow Agent and available as aforesaid.

<b><u>Maturity Date</u></b> <b><u>(October 1)</u></b>	<b><u>Maturity</u></b> <b><u>Amount</u></b>	<b><u>CUSIP<sup>†</sup> Number</u></b>
2020		

DATED: December \_\_, 2019

SOUTH GATE UTILITY AUTHORITY

By: U.S. BANK NATIONAL ASSOCIATION, as  
Escrow Agent

RECEIVED

Item No. 4

NOV 20 2019

City of South Gate

CITY OF SOUTH GATE  
OFFICE OF THE CITY MANAGER

SOUTH GATE UTILITY AUTHORITY

2:20pm

AGENDA BILL

For the Regular Meeting of: November 26, 2019  
Originating Department: Administrative Services

Department Director:

  
Jackie Acosta

Executive Director:

  
Michael Flad

**SUBJECT: ADOPTION OF A DEBT MANAGEMENT POLICY AND CONTINUING DISCLOSURE UNDERTAKING POLICY**

**PURPOSE:** Adoption of a debt management policy (the “Debt Management Policy”) that is compliant with California State Government Code (the “Government Code”) Section 8855(i) and a continuing disclosure undertaking policy (the “Continuing Disclosure Undertaking Policy”). The Debt Management Policy and the Continuing Disclosure Undertaking Policy would be applicable to all entities for which the City Council of the City of South Gate (the “City”) acts as its legislative body or its board members.

**RECOMMENDED ACTION:** Adopt Resolution approving a Debt Management Policy and Continuing Disclosure Undertaking Policy and authorizing certain actions in connection therewith.

**FISCAL IMPACT:** None.

**ANALYSIS & BACKGROUND:** Government Code Section 8855(i) requires governmental entities to submit a report of the proposed issuance of debt to the California Debt and Investment Advisory Commission (“CDIAC”) at least 30 days prior to the sale date of such debt issuance. In 2016, Government Code Section 8855(i) was amended to require that within such report of proposed issuance of debt, the governmental entity must certify to CDIAC that it has adopted local debt policies concerning the use of debt and that the contemplated debt issuance is consistent with those policies. In addition, the amended Section 8855(i) requires that the local debt policy include all of the following: (a) the purposes for which the debt proceeds may be used; (b) the types of debt that may be issued; (c) the relationship of the debt to, and integration with, the issuer’s capital improvement program or budget, if applicable; (d) policy goals related to the issuer’s planning and objectives; and (e) the internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

The Debt Management Policy has been developed to provide guidance in the issuance and management of debt by the City and is intended to comply with Government Code Section 8855(i). The main objectives of the Debt Management Policy are to establish conditions for the use of debt, to ensure that debt capacity and affordability are adequately considered, to minimize the City’s interest and issuance costs, to maintain the highest possible credit rating and to maintain financial flexibility of the City. In compliance with Government Code Section 8855(i), the Debt Management Policy states the purposes for debt and its use, type of debt that may be issued, relationship of debt to, and integration with, the City’s capital improvement program, policy goals related to the City’s planning goals and objectives and internal control procedures to ensure proceeds of the debt will be directed to the intended use.

The Continuing Disclosure Undertaking Policy has been recommended by bond counsel to assist the City and its related entities in complying with certain federal securities law obligations. The City will identify a “Responsible Officer” within the City who will be responsible for compiling and filing annual reports and event notices pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”). Such Responsible Officer will become familiarized with the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Marketplace Access (“EMMA”) website, identify and understand existing continuing disclosure obligations, submit annual reports to the applicable dissemination agent prior to the date on which the annual report must be filed or directly to EMMA, check EMMA to ensure that the Annual Report was posted, and file any applicable event notices.

**ATTACHMENTS:** 1. Proposed Resolution (including Debt Management & Continuing Disclosure Undertaking policies)

UTILITY AUTHORITY RESOLUTION NO. 19-\_\_\_\_\_

CITY OF SOUTH GATE  
LOS ANGELES COUNTY, CALIFORNIA

**RESOLUTION OF THE UTILITY AUTHORITY OF THE CITY OF SOUTH GATE, CALIFORNIA, APPROVING A DEBT MANAGEMENT POLICY AND CONTINUING DISCLOSURE UNDERTAKING POLICY AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH**

**WHEREAS**, California Government Code Section 8855(i) requires public agencies which issue debt securities to adopt a debt management policy that includes specific provisions concerning the use of indebtedness; and

**WHEREAS**, in order to comply with the requirements of State law, the Utility Authority (“Authority”) of the City of South Gate (“City”) has been presented with a proposed form of debt management policy (“Debt Management Policy”) for consideration;

**WHEREAS**, in connection with certain other requirements relating to its indebtedness, the City Council has also been presented with a proposed form of continuing disclosure undertaking policy (“Continuing Disclosure Undertaking Policy”) for consideration; and

**WHEREAS**, the Authority now desires to adopt the Debt Management Policy and the Continuing Disclosure Undertaking Policy in the form presented.

**NOW, THEREFORE, THE UTILITY AUTHORITY OF THE CITY OF SOUTH GATE DOES HEREBY RESOLVE AS FOLLOWS:**

**SECTION 1.** The Utility Authority hereby finds and declares that the above recitals are true and correct, and incorporates them into this Resolution.

**SECTION 2.** The Utility Authority hereby approves the Debt Management Policy attached hereto as Exhibit “A.” This policy approved hereunder supersedes any policies previously adopted by the City.

[Remainder of page left blank intentionally.]



**SECTION 3.** The Utility Authority hereby approves the Continuing Disclosure Undertaking Policy attached hereto as Exhibit "B." This policy approved hereunder supersedes any policies previously adopted by the City.

**SECTION 4.** The Recording Secretary of the South Gate Utility Authority shall certify to the adoption of this Resolution which shall be effective upon its adoption.

**PASSED, APPROVED and ADOPTED** this 26<sup>th</sup> day of November, 2019.


**SOUTH GATE UTILITY AUTHORITY:**

By: \_\_\_\_\_  
Belén Bernal, Chairperson

**ATTEST:**

\_\_\_\_\_  
Carmen Avalos, Recording Secretary  
(SEAL)

**APPROVED AS TO FORM:**

  
\_\_\_\_\_  
Raul F. Salinas, Authority Counsel

## **Exhibit “A”**

### **DEBT MANAGEMENT POLICY**

This Debt Management Policy (the “Debt Policy”) of the City of South Gate was approved by the City Council (as defined below) on November 26, 2019. The Debt Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt of the City of South Gate or its affiliated agencies including the City’s Successor Agency, Utility Authority and Public Financing Authority.

This Debt Policy will also apply to any debt issued by any other public agency for which the City Council of the City of South Gate acts as the legislative body (as appropriate, hereinafter, individually or collectively, the “City” and “City Council”).

The Debt Policy has been developed to provide guidance in the issuance and management of debt by the City and is intended to comply with Government Code Section 8855(i), effective on January 1, 2017. The main objectives are to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the City’s interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the City.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the City’s effort to allocate limited resources to provide the highest quality of service to the public. The City understands that poor debt management can have ripple effects that hurt other areas of the City. On the other hand, a properly managed debt program promotes economic growth and enhances the vitality of the City for its residents and businesses.

#### **1. Findings**

This Debt Policy shall govern all debt undertaken by the City. The City hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the City’s sound financial position.
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the City’s credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the City.
- Ensure that the City’s debt is consistent with the City’s planning goals and objectives and capital improvement program or budget, as applicable.
- Encourage those that benefit from a facility/improvement to pay the cost of that facility/improvement without the need for the expenditure of limited general fund resources.

## 2. Policies

### A. Purposes For Which Debt May Be Issued

The City will consider the use of debt financing primarily for capital improvement projects (CIP) when the project's useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. An exception to this CIP-driven focus is the issuance of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent cash management purposes and conduit financing, as described below. Bonded debt should not be issued for projects with minimal public benefit or support, or to finance normal operating expenses.

If a department has any project which is expected to use debt financing, the department director is responsible for expeditiously providing the City Manager and the Director of Administrative Services (or the person acting in such capacity) with reasonable cost estimates, including specific revenue accounts that will provide payment for the debt service. This will allow an analysis of the project's potential impact on the City's debt capacity and limitations. The department director shall also provide an estimate of any incremental operating and/or additional maintenance costs associated with the project and identify sources of revenue, if any, to pay for such incremental costs.

**(i) Long-Term Debt.** Long-term debt may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or operated by the City.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the City and its taxpayers and ratepayers.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

(c) The City may use long-term debt financings subject to the following conditions:

- The project to be financed has been or will be approved by the City Council.

- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%, unless specific conditions exist that would mitigate the extension of time to repay the debt and it would not cause the City to violate any covenants to maintain the tax-exempt status of such debt, if applicable.
- The City estimates that sufficient income or revenues will be available to service the debt through its maturity.
- The City determines that the issuance of the debt will comply with the applicable requirements of state and federal law.
- The City considers the improvement/facility to be of vital, time-sensitive need of the community and there are no plausible alternative financing sources.

(d) Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

In general, a refunding which produces a net present value savings on the principal of bonds refunded of at least three percent (3%) of the refunded debt will be considered economically viable for a current refunding, which is a bond issue that can be redeemed within 90 days. For a refunding that has a redemption date over 90 days, savings should be four percent (4%) or greater depending on time and interest cost to the redemption date. A current refunding which produces net present value savings of less than three percent (3%) or negative savings will be considered on a case-by-case basis. Similarly, an advance refunding which produces net present value savings of less than four percent (4%) or negative savings will be considered on a case-by-case basis. All refundings must be approved by the City Council.

**(ii) Short-term debt.** Short-term borrowing may be issued to generate funding for cash flow needs in the form of Tax and Revenue Anticipation Notes or Bond Anticipation Notes.

Short-term borrowing, such as commercial paper, and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the City Council determines that extraordinary circumstances exist, must not exceed seven (7) years.

Short-term debt may also be used to finance short-lived capital projects; for example, the City may undertake lease-purchase financing for equipment.

**(iii) Financings on Behalf of Other Entities.** The City may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of the City. In such cases, the City shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein. In no event will the City incur any liability or assume responsibility for payment of debt service on such debt.

## **B. Types of Debt**

In order to maximize the financial options available to benefit the public, it is the policy of the City to allow for the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

**General Obligation (GO) Bonds:** General Obligation Bonds are suitable for use in the construction or acquisition of improvements to real property and/or public infrastructure that benefit the public at large. Examples of projects include libraries, parks, overpasses and public safety facilities. All GO bonds shall be authorized by the requisite number, currently 2/3, of voters in order to pass.

**Special Revenue Bonds:** Revenue Bonds are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue. Generally, no voter approval is required to issue this type of obligation if structured as a lease revenue, installment revenue or refunding but in some cases, the City must comply with proposition 218 regarding rate adjustments. In connection with any financing, the City will covenant to maintain an operating reserve within the enterprise fund or special fund equal to at least six (6) months of operating and maintenance expenses.

**Lease-Backed Debt/Certificates of Participation (COP/Lease Revenue Bonds):** Issuance of lease-backed debt is a commonly used form of debt that allows a City to finance projects where the debt service is secured via a lease or installment sale agreement and where the payments are budgeted in the annual budget appropriation by the City from the general fund. Lease-backed debt does not constitute indebtedness under the state or the City's constitutional debt limit and does not require voter approval. Lease revenue bonds may be issued by the South Gate Public Financing Authority on behalf of the City or by the Utility Authority.

**Special Assessment/Special District Debt:** The City will consider requests from developers or other property owners for the use of debt financing secured by property based assessments or special taxes in order to provide for necessary infrastructure for new development or additions or replacement of existing infrastructure only under strict guidelines adopted by City Council, which may include minimum value-to-lien ratios and maximum tax burdens. Examples of this type of debt are Assessment Districts (AD) and Community Facilities Districts (CFD), more commonly known as Mello-Roos Districts. In order to protect bondholders as well as the City's credit rating, the City will also comply with all State guidelines regarding the

issuance of special district or special assessment debt. The credit criteria for Special Assessment/Special District Debt will be reviewed on a case by case basis in consultation with its Municipal Advisor.

**Tax Allocation Bonds:** Tax Allocation Bonds are special obligations that are secured by the allocation of tax increment revenues that are generated by increased property taxes in the designated redevelopment area. Tax Allocation Bonds are not debt of the City. Due to changes in the law affecting California Redevelopment agencies with the passage of ABX1 26 (as amended, the "Dissolution Act") as codified in the California Health and Safety Code, the South Gate Community Development Commission ("CDC") was dissolved as of February 1, 2012, and its operations substantially eliminated but for the continuation of certain enforceable CDC obligations to be administered by the Successor Agency to the CDC ("Successor Agency"). The Successor Agency may issue Tax Allocation Bonds to refinance outstanding obligations of the CDC, subject to limitations included in the Dissolution Act.

**Revenue Bonds:** Revenue bonds are special obligations of the City's enterprise funds that are secured by a pledge of net operating revenues from those enterprises. Revenue bonds are not a debt of the City. Revenue bonds generally require a rate covenant whereby the City promises to raise water or sewer rates in a sufficient amount to assure debt service coverage. This may require special hearings or notices to utility users. Revenue bonds should be structured to assure level annual debt service and the term of the bonds should match the useful life of the improvement being financed. Debt coverage should not be less than 120% unless special circumstances require it. Operating reserves should equal at least six (6) months of operation and maintenance expenses.

**Pension Bonds:** The City may issue taxable pension bonds, if needed, to meet its pension obligation or OPEB requirements. This type of debt would be secured by the City's General Fund and is only issued after independent study and evaluation including a review by the City's Municipal Advisor and Bond Counsel.

**Interfund Loans.** In lieu of issuing bonds or otherwise borrowing from third-parties, there will be situations that the most appropriate means for the City to borrow money will be through a loan from a well-capitalized City fund. Such Interfund Loans can be seen as an alternative investment of temporarily surplus City funds, which normally would be invested at a short-term rate as part of the City's pooled investment program.

In approving any new Interfund Loan, the City Council will adopt a resolution that sets forth the terms of the loan, which will include the following:

- The interest rate that the loan will bear until repayment. Appropriate interest rates may be the rate that the investment pool is earning at the time the loan is approved, the rate that the investment pool earns over the term of the loan, the rate of a US Treasury security of an equivalent term of the loan, or a rate that reflects the additional risk or illiquidity of the loan to fully compensate the fund that provides the loan.

- The terms under which the loan will be repaid such as frequency of payment (monthly, semiannually, annually), interest calculation method (360/365, monthly, annually), date of repayment (first day of the month, last day of the month, etc.), prepayment penalty, prepayment/early repayment/accelerated payment options and other payment terms.
- Periodic payment amount.
- The maturity date of the loan.

If there is a possibility that the loan will be repaid from the proceeds of tax-exempt bonds, a statement of such expectations is required so as to satisfy the federal tax law requirements for reimbursement bonds.

**Other Forms of Debt and Preferences.** The City may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

To maintain a predictable debt service burden, the City will give preference in the future to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is variable rate debt. The City may choose in the future to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of securities. When making the determination to issue bonds in a variable rate mode in the future, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, credit risk and third party risk analysis, and the overall debt portfolio structure when issuing variable rate debt for any purpose. The City's goal is to limit the maximum amount of variable-rate debt payable from the general fund to no more than 20 percent of the total debt payable from the general fund or any special revenue funds.

The City will not employ derivatives, such as interest rate swaps, in its debt program unless specifically recommended by its Municipal Advisor and Bond Counsel and only if such derivatives reduce or hedge existing risk, such as on variable rate issue. A derivative product is a financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate. Derivatives are commonly used as hedging devices in managing interest rate risk and thereby reducing borrowing costs. However, these products bear certain risks not associated with standard debt instruments.

### **C. Relationship of Debt to Capital Improvement Program and Budget**

The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's capital budget and the capital improvement plan.

The City shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that funds are available when needed in furtherance of the City's public purposes.

The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

**D. Policy Goals Related to Planning Goals and Objectives**

The City is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's annual operating budget.

It is a policy goal of the City to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The City will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

Except as described in Section 2.A., when refinancing debt, it shall be the policy goal of the City to realize, whenever possible, and subject to any overriding non-financial policy considerations, minimum net present value debt service savings equal to or greater than three percent (3%) of the refunded principal amount for a current refunding or four percent (4%) of the refunded principal amount for an advance refunding.

**E. Internal Control Procedures**

The Director of Administrative Services, or his or her designee (the "Designated City Representative"), is hereby appointed as the City official responsible for the following:

- Debt issuance and management, recognizing that assigned staff may be charged with certain day-to-day responsibilities.
- Working with the City Manager and other staff deemed appropriate in formulating the City's debt management plans, executing those plans, and ensuring appropriate debt management.
- Keeping the City Council informed of the City's debt-related activities through informational reports, briefings, or workshops.

When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall comply with all continuing bond disclosure requirements and the post-issuance compliance with Federal Tax Requirements applicable to Tax-Exempt Bonds, and any other applicable policies regarding initial bond disclosure and investment of bond proceeds.

The City will periodically review the requirements of, and will remain in compliance with, the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,



- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- the City's investment policies as they relate to the investment of bond proceeds.

The City shall be vigilant in using bond proceeds in accordance with the stated purpose at the time that such debt was issued. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the City Manager or the Director of Administrative Services/Treasurer or such other designee as appropriate.

#### **F. Financing Professionals**

The Designated City Representative, in consultation with the City Manager, if not the City Manager, will be responsible for recommending to the City Council the various members of the financing team, based on prior experience, recommendations or a request for proposal process, as he or she deems appropriate for that particular selection or as directed by the City Council.

**Bond and Disclosure Counsel.** Bond counsel is a specialized legal practice responsible for drafting legal documents and providing necessary opinions and will be appointed for any financings. For all public sales of debt, the City will use the services of counsel to prepare the official statement. The Designated City Representative will determine whether to select another law firm to provide the services of disclosure counsel or to assign such duties to bond counsel.

**Municipal Advisor.** The municipal advisor is a consultant hired to assist the City in evaluating financing options, structuring of its debt offerings, making recommendations as to the method of sale, conducting competitive bond sales, and assisting with bringing negotiated bond sales to market, including making recommendations to the City on proposed interest rates, prices and yields in light of market conditions and the characteristics of the bonds. The City will retain the services of a municipal advisor on all publicly offered debt issues.

**Underwriter.** If the City elects to sell its debt through a competitive sale, the underwriter will be selected based on the best bid. At those times that the City decides to issue its debt through a negotiated sale, it will select one or more underwriters.

**Trustee.** The Designated City Representative shall have the discretion to select a commercial banking firm as trustee in connection with any given financing.

Other financial professionals or firms may be required and/or advantageous depending on the particular bond issue. For example, a verification agent is typically necessary for refundings, while tax increment financings commonly have an independent fiscal consultant's report.

#### **G. Initial Disclosure**

When the City determines to issue debt directly, the Director of Administrative Services shall request the involved departments to prepare, review or update portions of any required offering document or preliminary official statement (the "POS") within their particular areas of

knowledge for which they are responsible. The information contained in the POS is developed by personnel under the direction of the Director of Administrative Services, with the assistance of the financing team, including Bond Counsel, Disclosure Counsel, City Attorney and its Municipal Advisor. The financing team shall assist staff in determining the materiality of any particular item, and in the development of specific language for the POS. Once the draft POS has been substantially updated, the entire draft POS is reviewed in its entirety to obtain final comments and to allow the underwriters, if any, to ask questions of the City's senior officials.

A substantially final form of the POS is provided to the City Council in advance of approval, generally by including the document with the agenda material relating to the approval of the debt, to afford such City Council an opportunity to review the POS, ask questions and make comments.

## **H. Credit Quality**

The City seeks to obtain and maintain the highest possible credit ratings for all categories of short-and long-term debt. The City will not issue bonds directly or on behalf of others such as private activity bonds that do not carry investment grade ratings of BBB or higher from Standard and Poor's or Baa2 from Moody's Investor Service unless such bonds are privately placed with appropriate resale restrictions. The City will consider the public issuance of non-rated special assessment and community facilities district bonds but only upon recommendation of its Municipal Advisor and provided such bond meets the requirements of the City.

Special Bond Reserve Funds and Bond Insurance. The City may consider eliminating bond reserve funds so long as the elimination does not materially reduce the credit rating of the bonds. The City may also consider bond insurance, bank letters of credit, or other forms of guarantee or bond reserve fund surety policies so long as premiums or costs are more than offset by a reduction in interest costs.

## **I. Method of Issuance**

The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation in consultation with its Municipal Advisor. Public offerings can be executed through either a competitive sale or a negotiated sale. It shall be the policy of the City to issue debt through a competitive sale whenever feasible.

*Competitive Sale* - In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost (TIC), as long as the bid adheres to requirements set forth in the official notice of sale.

*Negotiated Sale* – The City recognizes that some securities are best sold through negotiation. In consideration of a negotiated sale, the City shall assess the following circumstances in determining the advisability of such a sale:

- Issuance of variable rate or taxable bonds
- Complex structure or credit considerations (such as non-rated bonds), which requires a strong pre-marketing effort

- Significant par value, which may limit the number of potential bidders
- Unique proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process
- Market volatility, such that the City would be better served by flexibility in the timing of its sale in a changing interest rate environment
- When an Underwriter has identified new financing opportunities or presented alternative structures that financially benefit the City that could not be achieved through a competitive bid.
- As a result of an Underwriter's familiarity with the project/financing, which enables the City to take advantage of efficiency and timing considerations.

*Private Placement* – From time to time the City may elect to issue debt on a private placement basis. Such method shall only be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

#### **J. Waivers of Debt Policy**

There will be circumstances, from time to time, when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the City.

If City staff has determined that a waiver of one or more provisions of this Debt Policy should be considered by the City Council, it will prepare an analysis for the City Council describing the rationale for the waiver and the impact of the waiver on the proposed debt issuance and on taxpayers, if applicable.

Upon a majority vote of the City Council, one or more provisions of this Debt Policy may be waived for a debt financing.

The failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by the City in accordance with applicable laws.

## **Exhibit “B”**

### **CONTINUING DISCLOSURE UNDERTAKING POLICY**

#### **1. PURPOSE**

The following policy of the City of South Gate, California (including other of the City’s related entities, the “City”) is intended to ensure compliance with securities law requirements applicable to the City’s issues, whether comprising bonds, bond anticipation notes, certificates of participation, revenue obligations or other instruments.

#### **2. IN GENERAL**

The Securities and Exchange Commission Rule 15c2-12, as amended (the “Rule”), requires certain information regarding an entity responsible for the repayment of a municipal security (an “Issuer”) be disclosed to the municipal marketplace. In 2010, the U.S. Securities and Exchange Commission (“SEC”) amended the Rule to enhance the disclosure requirements of Issuers in an effort to improve the quality and availability of information regarding outstanding municipal securities. In SEC Rel. No. 34-62184, accompanying an expansion of the Rule, the SEC summarized its “mandate to adopt rules reasonably designed to prevent fraudulent, deceptive or manipulative acts or practices in the market for municipal securities.” The release reiterates the SEC’s position that material non-compliance by an Issuer with past continuing disclosure obligations may warrant, without corrective actions, an underwriter being prohibited from underwriting such an Issuer’s municipal securities, and thus would prevent the Issuer from accessing the municipal securities market.

The City Council of the City of South Gate (the “City Council”) acknowledges that, pursuant to the Rule, the City is required on an ongoing basis to provide certain financial and operating data to those persons and firms who own or are interested in purchasing the bonds, bond anticipation notes, certificates of participation, revenue obligations and other municipal obligations of the City previously issued and those which may in the future be issued by or on behalf of the City (the “Obligations”). Pursuant to the Rule, the City has entered into a number of undertakings, such as an agreement or certificate, under the Rule (each, a “Continuing Disclosure Undertaking”) regarding its outstanding Obligations and will be required to enter into a new Continuing Disclosure Undertaking with regard to any additional Obligations of the City.

Inasmuch as the Rule prevents an investment banking firm, or underwriter (each, an “Underwriter”) from purchasing the Obligations of the City in the absence of a Continuing Disclosure Undertaking and adequate assurances from the City that it will comply with the terms thereof, it is vital that the City maintain compliance with the Rule and its Continuing Disclosure Undertakings.

#### **3. SELECTION OF RESPONSIBLE OFFICER**

The City will identify, on an annual basis, the Director of Administrative Services, or his or her designee as the Responsible Officer (“Responsible Officer”), who will be responsible for compiling and filing annual reports (the “Annual Reports”) and notices (the

“Listed Event Notices”) of the occurrence of certain listed events (found in each Continuing Disclosure Undertaking), if necessary. In the absence of such delegation by the City Council, the Responsible Officer shall be the City Manager of the City.

#### **4. ELECTRONIC MUNICIPAL MARKET ACCESS**

The Responsible Officer will familiarize themselves with the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Market Access (“EMMA”) website. The Responsible Officer will understand how to locate the City’s Obligations on EMMA. If the City is serving as its own Dissemination Agent, the Responsible Officer will establish a user identification and password for EMMA and become familiar with uploading documents onto EMMA.

#### **5. IDENTIFYING AND UNDERSTANDING EXISTING CONTINUING DISCLOSURE OBLIGATIONS**

The Responsible Officer will, for each separate issue of outstanding municipal securities to which the Rule applies, read the related Continuing Disclosure Undertaking and identify the following:

- The date by which the Annual Report must be filed;
- The contents that need to be included in the Annual Report;
- The Listed Event Notices that must be filed; and
- When Listed Event Notices are required to be filed.

#### **6. PREPARING AND SUBMITTING THE ANNUAL REPORT**

*Preparing Annual Audited Financial Statements.* The City will begin the process of completing its audited financial statements as soon as practicable after the close of each Fiscal Year. Such audited financial statements should be completed at least one month prior to the date the Annual Report must be filed.

*Preparation of Tables and Other Information.* The Responsible Officer will identify any information that is required to be included in the Annual Report but is not part of the City’s audited financial statements, and contact the sources necessary to compile such information as soon as possible after the close of each Fiscal Year. The City should consider adding any information required by its Continuing Disclosure Undertakings not included already in its audited financial statements into a supplementary information section of its audited financial statements.

*Submission of Annual Report.* Following the compilation of the information that is to be included in the Annual Report and prior to the date on which the Annual Report must be filed, the Responsible Officer will submit the Annual Report to the Dissemination Agent identified in the Continuing Disclosure Undertaking or to EMMA, as applicable.

*Review of EMMA.* Following the submission of the Annual Report to EMMA or the Dissemination Agent, as applicable, the Responsible Officer should review the EMMA website to confirm that the Annual Report has been posted. If the Annual Report has not been posted, the Dissemination Agent should be notified, or the Responsible Officer should file the Annual Report, as applicable.

## **7. IDENTIFYING AND REPORTING LISTED EVENTS**

*Understanding the Listed Events.* The Responsible Officer should be aware of the listed events (found in each Continuing Disclosure Undertaking) (the “Listed Events”) necessitating the filing of a Listed Event Notice. The Listed Events required to be included in each Continuing Disclosure Undertaking pursuant to the Rule have been included as Appendix A to this policy. Appendix A also includes two Listed Events that became effective for all Continuing Disclosure Undertakings entered into on or after February 27, 2019. These Listed Events are discussed in further detail below. If clarification is required regarding what is meant by each such Listed Event, the City’s disclosure counsel should be contacted to clarify such meaning.

*Filing Event Notices.* Each such notice shall be filed by the City, or by the Dissemination Agent, if any, on behalf of the City, to EMMA in a timely manner.

*Occurrence of a Listed Event.* The Issuer should contact its disclosure counsel if it has any questions regarding the occurrence of a Listed Event, and whether such occurrence may require the filing of an Event Notice.

*Additional Listed Events Required in Continuing Disclosure Undertakings Entered Into On and After February 27, 2019.* As a result of an amendment to the Rule, Continuing Disclosure Undertakings entered into on or after February 27, 2019, are required to include certain additional Listed Events relating to: (a) the incurrence of certain financial obligations if material (other than bonds or notes for which an official statement has been posted to EMMA), (b) the modification of the terms of a financial obligation which affects security holders, if material, and (c) a default, event of default, acceleration, waiver or other modification or similar events with respect to a financial obligation that reflects financial difficulties. Included as Appendix A is a list of the Listed Events required by the Rule, identifying the two additional events that were incorporated by the amendment to the Rule and are required to be in all Continuing Disclosure Undertakings after February 27, 2019.

As provided in the amendment to the Rule, “[t]he term “financial obligation” means a: (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule (i.e., posted to EMMA).

Debt Obligations. SEC Rel. No. 34-83886 (the “SEC Release”), the adopting release published in connection with the amendments to the Rule, interprets debt

obligations to include both debt and debt-like obligations, and requires them to be disclosed when incurred or amended, if material.

Debt obligations exclude bonds, notes or other obligations (including lease revenue bonds or certificates of participation) offered pursuant to an official statement that complies with the Rule, and is posted by the underwriter or the Issuer to EMMA. Debt obligations also exclude ordinary financial and operating liabilities incurred in the normal course of the Issuer's business.

The SEC Release interprets debt-like obligations to include leases that are "vehicles to borrow money." The SEC Release points to lease-revenue transactions and certificates of participation transactions as examples of such vehicles, as these transactions involve a person advancing money to an Issuer which will be used by the Issuer to acquire or improve property, obtaining title to, or a lease of, the property, and leasing or subleasing the property to the Issuer in consideration for rent that repays the advance. Most operating leases would not fall into the category of debt obligations for purposes of the amendment either because they do not result in the receipt of money by or for the benefit of an Issuer or are ordinary obligations incurred in the normal course of Issuer operations.

Derivative Instruments. The SEC defines "derivative instruments" as "a derivative instrument entered into in connection with, or pledged as a security or a source of payment for, an existing or planned debt obligation." The SEC Release interprets "derivative instrument" to include any swap, security-based swap, futures contract, forward contract, option, any combination of the foregoing, or any similar instrument," but only if related to an existing or planned debt, either because entered into to hedge the debt or pledged as security for the debt.

Guarantees. The SEC Release states that an Issuer's "guarantee" of a "debt obligation" or covered derivatives instrument would also be considered a "financial obligation." For these purposes, "guarantee" is intended to include any obligation to pay or secure a third party's or Issuer's financial obligation. This term would include a payment guarantee by an entity such as the City.

It is hereby the policy of the City, that the Responsible Officer be notified of the incurrence of any financial obligation to be entered into by, or on behalf of, the City. The Responsible Officer shall take measures to advise all applicable City staff of this City policy.

In addition, such Responsible Officer will notify the City's municipal advisor and the City's bond counsel and/or disclosure counsel of the receipt by the City of any default, event of acceleration, termination event, modification of terms (only if material or reflecting financial difficulties), or other similar events under any agreement or obligation to which the City is a party and which may be a "financial obligation" as discussed above. Such notice should be provided by the Responsible Officer as soon as the Responsible Officer receives notice from City staff, consultants or external parties of such event or receives direct written notice of such event so that the City can determine, with the assistance of

the municipal advisor and bond counsel and/or disclosure counsel, whether notice of such event is required to be filed on EMMA pursuant to the Rule. If filing on EMMA is required, the filing is due within 10 business days of the occurrence of such event to comply with the applicable Continuing Disclosure Undertaking entered into after February 27, 2019.

The City will develop a system whereby a designated member of City Staff will create a list identifying the execution by the City of any agreement or other obligation which might constitute a “financial obligation” for purposes of the Rule and which is entered into after February 27, 2019. Amendments to existing agreements or financial obligations which relate to covenants, events of default, remedies, priority rights, or other similar terms should be reported to the City’s municipal advisor and the City’s bond counsel and/or disclosure counsel as soon as notice of amendment requests is received by City staff, consultants, or external parties of such event. Such notice is necessary so that the City can determine, with the assistance of bond counsel and/or disclosure counsel, whether such agreement or other obligation constitutes a material “financial obligation” for purposes of the Rule. If such agreement or other obligation is determined to be a material “financial obligation” or a material amendment to a “financial obligation” described above, notice thereof would be required to be filed on EMMA within 10 business days of execution or incurrence.

## **8. RECORD RETENTION**

The City should retain the transcript containing the documents related to each issue of municipal securities of the City. The City will retain electronic and paper copies of each Annual Report submitted to EMMA. The City will retain electronic and paper copies of each Listed Event Notice submitted to EMMA. The City should retain all source data used to complete the Annual Report. For example, source material pertaining to assessed valuation, tax rates or other tables noted in the Continuing Disclosure Undertaking that are required to be updated annually.

The Responsible Officer should create an index cataloging the aforementioned documents (the “retained documents”). Such index and documents should be stored at the main office of the City. The Responsible Officer should be responsible for the maintenance and updating of such index. If the individual serving as Responsible Officer is replaced, the index, the retained documents and a copy of these procedures should be provided to the individual assuming the position of Responsible Officer.

The retained documents identified in this Section 8.0 should be retained for a period of at least six years following the maturity, prepayment or redemption of the related issue of municipal securities.

## **9. EFFECTIVE DATE**

This Continuing Disclosure Undertaking Policy is effective as of November 26, 2019.



## Appendix A

### Listed Events – Pre-February 27, 2019

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the security, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of the Issuer or another obligated person;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or another obligated person or the sale of all or substantially all of its assets, 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; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

### New Events – Post-February 27, 2019 Transactions

- (xv) 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

- (xvi) 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.

**CITY OF SOUTH GATE  
REGULAR UTILITY AUTHORITY MEETING  
MINUTES  
TUESDAY, JUNE 13, 2017**

**Item No. 5**

- CALL TO ORDER**            The regular meeting of the South Gate Utility Authority was called to order by Director Davila at 5:44 p.m.
- ROLL CALL**                Carmen Avalos, City Clerk
- PRESENT**                   Director Maria Davila, Director Maria Belen Bernal, Director Denise Diaz and Director Al Rios; Executive Director Michael Flad, Public Works Director Arturo Cervantes and Authority Counsel Raul F. Salinas
- ABSENT**                    Director Jorge Morales
- 1**  
**RE-ORGANIZATION**        Director Davila was appointed as Chair by motion of Director Rios and seconded by Director Bernal.
- ROLL CALL:** Director Davila, abstained; Director Bernal, yes; Director Diaz, yes; Director Rios, yes; Director Morales, absent.
- Director Bernal was appointed as Vice Chair by motion of Chairwoman Davila and seconded by Director Diaz.
- ROLL CALL:** Chairwoman Davila, yes; Director Bernal, abstained; Director Diaz, yes; Director Rios, yes; Director Morales, absent.
- 2**  
**MINUTES**                    The Board of Directors approved the Regular Utility Authority Meeting minutes of October 23, 2012, by motion of Chairwoman Davila and seconded by Vice Chairwoman Bernal.
- 3**  
**COMMENTS FROM THE AUDIENCE**        None
- 4**  
**COMMENTS FROM THE AUTHORITY MEMBERS**        None
- ADJOURNMENT**            Chairwoman Davila adjourned the meeting at 5:49 p.m. and seconded by Vice Chairwoman Bernal.

**PASSED and APPROVED** this 26th day November, 2019.

ATTEST:

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, Chairwoman

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Carmen Avalos, City Clerk