

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER __, 2020

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption "TAX EXEMPTION."

NEW ISSUE – BOOK-ENTRY ONLY

Rating: See the caption "RATING"

\$ _____ *

**GARDEN GROVE PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2020A**

Dated: Date of Delivery

Due: December 15, as shown on inside front cover page

The Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in denominations of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of the Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds is payable on June 15 and December 15 of each year, commencing June 15, 2021. Payment of the principal of and interest on the Bonds is to be made to Cede & Co., which is to disburse said payments to the Beneficial Owners of the Bonds through their nominees.

The Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity, all as more fully described herein.

The Bonds are being issued to provide funds: (i) to finance the acquisition and construction of certain improvements to the City's Water System; (ii) to refund the Garden Grove Public Financing Authority's Water Revenue Bonds, Series 2010A (Tax-Exempt), Series 2010B (Federally Taxable Direct Pay Build America Bonds) and Series 2010C (Federally Taxable Recovery Zone Economic Development Bonds); and (iii) to pay costs incurred in connection with the issuance of the Bonds.

The Bonds are being issued pursuant to the Indenture of Trust, dated as of November 1, 2020, by and between the Garden Grove Public Financing Authority and U.S. Bank National Association, as trustee. THE BONDS ARE A SPECIAL LIMITED OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM AUTHORITY REVENUES, WHICH CONSIST OF SERIES 2020 INSTALLMENT PAYMENTS TO BE MADE BY THE CITY TO THE AUTHORITY PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT, DATED AS OF NOVEMBER 1, 2020, BY AND BETWEEN THE CITY AND THE AUTHORITY, AND FROM CERTAIN OTHER FUNDS AND ACCOUNTS HELD BY THE TRUSTEE PURSUANT TO THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE AUTHORITY ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE BONDS. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the City to make the Series 2020 Installment Payments is a special limited obligation of the City payable solely from Net Revenues of the City's Water System on a parity with obligations which are outstanding in the aggregate principal amount of \$3,805,000. The City may incur additional obligations payable from Net Revenues on a parity with the obligation to pay Series 2020 Installment Payments, subject to the terms and conditions of the Installment Purchase Agreement, as more fully described herein.

THE OBLIGATION OF THE CITY TO MAKE SERIES 2020 INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE THE SERIES 2020 INSTALLMENT PAYMENTS IS A SPECIAL LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES OF THE CITY'S WATER SYSTEM AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

MATURITY SCHEDULE

(See inside front cover page)

The Bonds are offered when, as and if delivered to and received by the Underwriter, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. The Underwriter is being represented by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California. Certain legal matters will be passed upon for the Authority and the City by Woodruff Spradlin & Smart, Costa Mesa, California, as General Counsel and City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about November 3, 2020.

STIFEL

Dated: October __, 2020

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

\$ _____ *

**GARDEN GROVE PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2020A**

MATURITY SCHEDULE

BASE CUSIP[†] _____

\$ _____ Serial Bonds

<i>Maturity (December 15)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
	\$	%	%		

\$ _____ % Term Bonds Due December 15, 2050, Yield: _____ %, Price: _____, CUSIP[†] _____

* Preliminary, subject to change.

[†] CUSIP[®] is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright[®] 2020 CUSIP Global Services. All rights reserved. CUSIP[®] data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP[®] numbers are provided for convenience of reference only. None of the Authority, the City or the Underwriter takes any responsibility for the accuracy of such numbers.

GARDEN GROVE PUBLIC FINANCING AUTHORITY

Orange County, California

Board of Directors

Steven R. Jones, Chair
John R. O'Neill, Vice Chair
George S. Brietigam III, Board Member
Diedre Thu-Ha Nguyen, Board Member
Patrick Phat Bui, Board Member
Stephanie Klopfenstein, Board Member
Kim B. Nguyen, Board Member

CITY OF GARDEN GROVE

Orange County, California

City Council

Steven R. Jones, Mayor
John R. O'Neill, Mayor Pro Tem, Council Member, District 2
George S. Brietigam III, Council Member, District 1
Diedre Thu-Ha Nguyen, Council Member, District 3
Patrick Phat Bui, Council Member, District 4
Stephanie Klopfenstein, Council Member, District 5
Kim B. Nguyen, Council Member, District 6

City Staff

Scott C. Stiles, City Manager
Patricia Song, Director of Finance
Bill Murray, Public Works Director
Teresa Pomeroy, CMC, City Clerk

Special Services

Authority General Counsel/City Attorney

Woodruff Spradlin & Smart
Costa Mesa, California

Bond Counsel and Disclosure Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

Municipal Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Trustee/Escrow Agent

U.S. Bank National Association
Los Angeles, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

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

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

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

This Official Statement and the information that is contained herein are subject to completion or amendment 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 City or the Authority or any other parties that are described herein since the date hereof. These securities may not be sold, nor may an offer to buy them be accepted, prior to the time that the Official Statement is delivered in final form. This Official Statement is being 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 City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements which are included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained under the captions "THE CITY," "THE WATER SYSTEM" and "WATER SYSTEM FINANCIAL INFORMATION."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

IN CONNECTION WITH THE OFFERING OF THE BONDS, 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 UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, DEALER BANKS, BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms that are used and not otherwise defined in this Summary Statement have the meanings ascribed to them in this Official Statement.

Purpose. The Bonds are being issued to provide funds: (i) to finance the acquisition and construction of certain improvements to the City's Water System, as described under the caption "FINANCING PLAN—The 2020 Project;" (ii) to refund the Garden Grove Public Financing Authority's Water Revenue Bonds, Series 2010A (Tax-Exempt), Series 2010B (Federally Taxable Direct Pay Build America Bonds) and Series 2010C (Federally Taxable Recovery Zone Economic Development Bonds), as described under the caption "FINANCING PLAN—Refunding Plan;" and (iii) to pay costs incurred in connection with the issuance of the Bonds. See the caption "FINANCING PLAN—Estimated Sources and Uses of Funds."

Security for the Bonds. The Bonds are a special limited obligation of the Authority payable solely from Authority Revenues, which consist of Series 2020 Installment Payments to be made by the City to the Authority pursuant to the Installment Purchase Agreement and amounts on deposit in certain funds and accounts established by the Indenture. Neither the full faith and credit nor any other revenues or funds of the Authority are pledged to or available for the payment of debt service on the Bonds. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the City to make Series 2020 Installment Payments is a special limited obligation of the City payable solely from Net Revenues of the City's Water System, which consist of Revenues of the City's Water System remaining after payment of Operation and Maintenance Costs. See the caption "SECURITY FOR THE BONDS."

The obligation of the City to make Series 2020 Installment Payments is payable from Net Revenues on a parity with the City's Water Revenue Refunding Bonds, Series 2015, which are currently outstanding in the aggregate principal amount of \$3,805,000. See the caption "THE CITY—Outstanding Parity Bonds and Contracts."

The obligation of the City to make the Series 2020 Installment Payments under the Installment Purchase Agreement is absolute and unconditional, and until such time as all payments that are required thereunder have been paid in full (or provision for the payment thereof has been made as provided for in the Installment Purchase Agreement), the City will not discontinue or suspend any Series 2020 Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and whether or not the 2020 Project has been completed, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

THE OBLIGATION OF THE CITY TO MAKE SERIES 2020 INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE THE SERIES 2020 INSTALLMENT PAYMENTS IS A SPECIAL LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL

SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

No Reserve Fund. No reserve fund or account has been established under the Indenture or the Installment Purchase Agreement in connection with the issuance of the Bonds.

Rate Covenant. In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund, if established, on the first day of such Fiscal Year is less than the Series 2020 Installment Payments payable in such Fiscal Year, the City will, to the fullest extent permitted by law, fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water Service which are reasonably expected, at the commencement of each Fiscal Year, to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 125% of the Debt Service for such Fiscal Year. When calculated for the foregoing purposes, Net Revenues do not include amounts which are transferred from the Rate Stabilization Fund, if established, that are in excess of 25% of Debt Service for such Fiscal Year.

In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund on the first day of such Fiscal Year is at least equal to the Series 2020 Installment Payments payable in such Fiscal Year, to the fullest extent permitted by law, the City will fix and prescribe, at the commencement of each such Fiscal Year, rates and charges for the Water Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues equal to 100% of Debt Service for such Fiscal Year. When calculated for the foregoing purposes, Net Revenues do not include any amounts which are transferred from the Rate Stabilization Fund, if established.

See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

Additional Indebtedness. The Installment Purchase Agreement does not permit the City to make any additional pledge of, or to place any additional lien on, the Revenues, or any portion thereof, which is senior to the pledge and lien securing the payment of the Series 2020 Installment Payments. The Installment Purchase Agreement does permit the City to incur Parity Bonds and Contracts which are payable on a parity with the Series 2020 Installment Payments provided that certain conditions are satisfied as described herein. Nothing in the Installment Purchase Agreement precludes the City from entering into obligations which are Operation and Maintenance Costs and, therefore, payable from Revenues prior to the Series 2020 Installment Payments, or from issuing any bonds or executing any contracts the payments under which are payable from Net Revenues on a subordinate basis to the Series 2020 Installment Payments, Parity Bonds and Contracts of the City. See the caption “SECURITY FOR THE BONDS—Additional Parity Bonds and Contracts.”

Redemption. The Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity. See the caption “THE BONDS—Redemption.”

The City and the Water System. The City was incorporated in 1956 under the general laws of the State of California. The City occupies a land area of approximately 17.9 square miles and serves a residential population of approximately 175,000. The City is located in northern Orange County, approximately 35 miles south of the City of Los Angeles. Land use in the City is primarily residential, with areas of commercial and industrial development.

The City supplies potable water to approximately 31,315 residential, 1,653 commercial and 1,491 industrial and other connections within the boundaries of the City and a small portion of the unincorporated area of the County adjacent to the City.

The City has two water sources: (i) groundwater that is extracted from 11 City-owned wells in the Orange County Groundwater Basin; and (ii) treated water that is imported from the Colorado River and northern and central California by The Metropolitan Water District of Southern California and purchased by the City from the Municipal Water District of Orange County, an MWD member agency. The City has recently voluntarily

stopped groundwater extractions from two of its wells as a result of State regulations relating to substances known as PFAS, as described under the caption “THE WATER SYSTEM—Water Quality—PFAS.” The City expects to purchase additional imported water supplies from MWDOC to serve customer demand while such wells are out of service.

See the captions “THE CITY,” “THE WATER SYSTEM” and “WATER SYSTEM FINANCIAL INFORMATION,” as well as Appendix A, for further information about the City and the Water System.

\$ _____ *

**GARDEN GROVE PUBLIC FINANCING AUTHORITY
WATER REVENUE BONDS, SERIES 2020A**

INTRODUCTION

This Official Statement, including the front cover page, the inside front cover page and the appendices, provides certain information concerning the sale and delivery of the Garden Grove Public Financing Authority Water Revenue Bonds, Series 2020A (the “**Bonds**”). Descriptions and summaries of various documents that are set forth in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. Capitalized terms that are used and not otherwise defined in this Official Statement have the meanings ascribed thereto in Appendix B.

The Bonds are being issued to provide funds: (i) to finance the acquisition and construction of certain improvements (the “**2020 Project**”) to the Water System of the City of Garden Grove (the “**City**”), as described under the caption “FINANCING PLAN—The 2020 Project;” (ii) to refund the Garden Grove Public Financing Authority’s Water Revenue Bonds, Series 2010A (Tax-Exempt), Series 2010B (Federally Taxable Direct Pay Build America Bonds) and Series 2010C (Federally Taxable Recovery Zone Economic Development Bonds) (collectively, the “**2010 Bonds**”), as described under the caption “FINANCING PLAN—Refunding Plan;” and (iii) to pay costs incurred in connection with the issuance of the Bonds. See the caption “FINANCING PLAN—Estimated Sources and Uses of Funds.”

The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2020 (the “**Indenture**”), by and between the Garden Grove Public Financing Authority (the “**Authority**”) and U.S. Bank National Association, as trustee (the “**Trustee**”). The Bonds are limited obligations of the Authority payable solely from Authority Revenues, which consist of payments (the “**Series 2020 Installment Payments**”) to be made by the City (the “**City**”) to the Authority pursuant to an Installment Purchase Agreement (the “**Installment Purchase Agreement**”), dated as of November 1, 2020, by and between the City and the Authority, and amounts on deposit in certain funds and accounts established by the Indenture.

The obligation of the City to make Series 2020 Installment Payments is a special limited obligation of the City payable solely from Net Revenues of the City’s Water System, which consist of Revenues of the Water System remaining after payment of Operation and Maintenance Costs. See the caption “SECURITY FOR THE BONDS.”

The obligation of the City to make Series 2020 Installment Payments from Net Revenues is on a parity with the obligation of the City to pay the City of Garden Grove Water Revenue Refunding Bonds, Series 2015 (the “**2015 Bonds**”), which are currently outstanding in the aggregate principal amount of \$3,805,000. The City may incur additional obligations payable from Net Revenues on a parity with the obligation to pay Series 2020 Installment Payments, as described under the caption “SECURITY FOR THE BONDS—Additional Parity Bonds and Contracts.”

The City regularly prepares a variety of reports, including audits, budgets and related documents. Any Bond Owner may obtain a copy of such report, as available, from the City. The City has also undertaken to provide annual reports to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (“**EMMA**”), which is accessible on the Internet at <http://emma.msrb.org>, pursuant to a continuing disclosure agreement. See the caption “CONTINUING DISCLOSURE” and Appendix E.

* Preliminary, subject to change.

FINANCING PLAN

The 2020 Project

The 2020 Project consists of: (i) a study and structural evaluation of water facilities; (ii) water main replacements; (iii) rehabilitation and upgrade of Supervisory Control and Data Acquisition and other control systems; (iv) rehabilitation of storage reservoirs and booster pump stations; (v) evaluation and rehabilitation of existing wells and/or redevelopment of new well(s); and (vi) other improvements or additions to Water System facilities as may be identified in the City's Capital Improvement Plan and other evaluations/studies from time to time.

The City expects to comply with all governmental approval, environmental review, public bidding and other permitting requirements for each component of the 2020 Project as required by law, and to complete all components of the 2020 Project by late 2023.

Pursuant to the Installment Purchase Agreement, the City may substitute or add additional projects to the 2020 Project. See Appendix B under the caption "INSTALLMENT PURCHASE AGREEMENT—ACQUISITION AND CONSTRUCTION OF PROJECTS—Changes to the 2020 Project."

Refunding Plan

General. The Authority previously issued the 2010 Bonds, which are currently outstanding in the aggregate principal amount of \$15,390,000, pursuant to an Indenture of Trust, dated as of May 1, 2010 (the "**2010 Indenture**"), by and between the Authority and U.S. Bank National Association, as trustee (the "**2010 Trustee**"). The 2010 Bonds are payable from installment payments made under the Installment Purchase Agreement, dated as of May 1, 2010 (the "**2010 IPA**"), by and between the City and the Authority. The Authority plans to apply a portion of the proceeds of the Bonds to refund the 2010 Bonds in full.

Under an Escrow Agreement (2010 Bonds), dated as of November 1, 2020 (the "**2010 Escrow Agreement**"), by and among the City, the Authority and the 2010 Trustee, the Authority will cause a portion of the proceeds of the Bonds to be delivered to the 2010 Trustee for deposit in the escrow fund established under the 2010 Escrow Agreement (the "**2010 Escrow Fund**"). In addition, the Authority will cause the 2010 Trustee to deposit into the 2010 Escrow Fund certain moneys held by the 2010 Trustee in funds and accounts established in connection with the 2010 Bonds.

The 2010 Trustee will invest a portion of the amounts deposited in the 2010 Escrow Fund in federal securities as set forth in the 2010 Escrow Agreement. From the moneys on deposit in the 2010 Escrow Fund and the investment earnings thereon, the 2010 Trustee will pay on December 15, 2020 the principal of the 2010 Bonds maturing on and after such date, together with accrued interest thereon, without premium.

Sufficiency of the deposits in the 2010 Escrow Fund 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 2010 Escrow Agreement, the 2010 Bonds will be defeased pursuant to the provisions of the 2010 IPA and the 2010 Indenture as of the date of issuance of the Bonds.

Verification. Upon the issuance of the Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to the adequacy of the moneys deposited in the 2010 Escrow Fund to pay on December 15, 2020 the principal of the 2010 Bonds maturing on after such date, together with accrued interest thereon, without premium.

The amounts held by the 2010 Trustee in the 2010 Escrow Fund are pledged solely to the payment of the 2010 Bonds. Neither the funds deposited in the 2010 Escrow Fund nor any interest thereon will be available for the payments of principal of or interest on the Bonds.

Estimated Source and Uses of Funds

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the Bonds:

Sources⁽¹⁾	
Principal Amount of Bonds	\$
Plus/Less Net Original Issue Premium/Discount	
City Contribution ⁽²⁾	
Total Sources	\$
Uses⁽¹⁾	
Deposit to Acquisition Fund	\$
Transfer to 2010 Trustee to Refund 2010 Bonds	
Costs of Issuance ⁽²⁾	
Total Uses	\$

(1) Amounts rounded to the nearest dollar. Totals may not add due to rounding.

(2) Reflects moneys held in funds and accounts established in connection with the 2010 Bonds.

(3) Includes certain legal, municipal advisory, financing, rating agency, Verification Agent and Trustee fees, Underwriter's discount and printing costs.

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of \$____. * The Bonds will bear interest from and be dated the date of initial issuance, and will be payable upon maturity on the dates set forth on the inside front cover page hereof. Interest on the Bonds will be payable on June 15 and December 15 of each year, commencing June 15, 2021.

Interest will be calculated at the rates set forth on the inside front cover page hereof on the basis of a year of 360 days comprised of twelve 30 day months.

The Bonds will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See the caption “—Book-Entry Only System” and Appendix D.

In the event that the book-entry only system that is described below is discontinued, the principal of and interest on any Bond will be payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the Office of the Trustee in Los Angeles, California. Such principal and interest will be payable in lawful money of the United States of America.

* Preliminary, subject to change.

Book-Entry Only System

One fully-registered Bond will be issued for each maturity of the Bonds in the principal amount of the Bonds of such maturity. Each such Bond will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the Bonds is registered in the name of Cede & Co., the term “**Owner**” as used in this Official Statement will refer to Cede & Co. and not to the actual purchasers of the Bonds (the “**Beneficial Owners**”).

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The Authority cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix D for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system that is described above is discontinued, the Bonds will be printed and delivered as provided in the Indenture. Thereafter, 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 or her duly authorized attorney, upon surrender of such Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee is not required to register the transfer of any Bond during the period in which the Trustee is selecting Bonds for redemption and any Bond that has been selected for redemption.

Whenever any Bond is surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of Bonds, the Trustee will cancel and destroy the Bonds that it has received.

Prior to any transfer of the Bonds outside the book entry system (including, but not limited to, the initial transfer outside the book entry system) the transferor will provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Code Section 6045, as amended. The Trustee will conclusively rely on the information provided to it and has no responsibility to verify or ensure the accuracy of such information.

Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee is not required to exchange any Bond during the period in which the Trustee is selecting Bonds for redemption or any Bond that has been selected for redemption. The Trustee will require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of Bonds, the Trustee will cancel and destroy the Bonds that it has received.

Redemption

Optional Redemption. The Bonds with stated maturities on or after December 15, 20__, are subject to redemption prior to their respective stated maturities, as a whole or in part as directed by the Authority in a

Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of \$5,000, on _____, 20__ or any date thereafter at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds with stated maturities on December 15, 20__ are subject to mandatory sinking fund redemption in part (by lot) on December 15, 20__ and each December 15 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date (December 15)</i>	<i>Principal Amount</i>
20__	\$
20__	
20__	
20__	
20__*	

* Maturity.

If some but not all of the Bonds maturing on December 15, 20__ are redeemed as described under the subcaptions “—Optional Redemption” or “—Extraordinary Redemption from Net Proceeds of Insurance or Condemnation,” the principal amount of the applicable Bonds to be redeemed pursuant to the Indenture on any subsequent December 15 will be reduced, by \$5,000 or an integral multiple thereof, as designated by the Authority in a Certificate of the Authority filed with the Trustee; provided, however, that the aggregate amount of such reductions may not exceed the aggregate amount of the applicable Bonds redeemed.

Extraordinary Redemption from Net Proceeds of Insurance or Condemnation. The Bonds will be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the Authority in a Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in, the Installment Purchase Agreement, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. See Appendix B under the captions “INSTALLMENT PURCHASE AGREEMENT—COVENANTS OF THE CITY—Insurance” and “INSTALLMENT PURCHASE AGREEMENT—COVENANTS OF THE CITY—Eminent Domain Proceeds.”

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

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 for redemption as a whole or in part on any date as directed by the Authority and by lot within each maturity in integral multiples of \$5,000 in accordance with the Indenture. The Trustee will promptly notify the Authority in writing of the numbers of the Bonds or portions thereof so selected for redemption.

Notice of Redemption

Notice of redemption will be mailed by first class mail not less than 20 days nor more than 60 days before any Redemption Date, to the respective Owners of any Bonds that are designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services. Each notice of redemption will state the date of notice, the redemption date, the place or places of redemption and the Redemption Price, and will designate the maturities, CUSIP numbers, if any, 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 will also state that on the redemption date there will become due and payable on each of said Bonds or parts thereof that are designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, together with, interest accrued thereon to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any Bond. Notice of redemption of Bonds will be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed and that, if such moneys have not been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Effect of Redemption

Notice of redemption having been duly given as described above under the caption “—Notice of Redemption,” 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 will become due and payable, interest on the Bonds so called for redemption will cease to accrue, said Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee will, upon surrender for payment of any of the Bonds to be redeemed on their Redemption Dates, pay such Bonds at the Redemption Price. All Bonds redeemed pursuant to the provisions of the Indenture will be canceled upon surrender thereof.

DEBT SERVICE SCHEDULE

Set forth below is a schedule of debt service on Parity Bonds and Contracts of the City which are payable on a parity with the Series 2020 Installment Payments as well as debt service on the Bonds, which equals the Series 2020 Installment Payments for each annual period ending on December 15 in the years indicated.

<i>Period Ending December 15</i>	<i>Parity Bonds and Contracts⁽¹⁾</i>	<i>Bonds</i>			<i>Total Debt Service</i>
		<i>Principal</i>	<i>Interest</i>	<i>Total</i>	
2020	\$	\$	\$	\$	\$
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
2046					
2047					
2048					
2049					
2050					
2051					
TOTAL	\$	\$	\$	\$	\$

⁽¹⁾ Reflects scheduled debt service on the 2015 Bonds. See the caption “THE CITY—Outstanding Parity Bonds and Contracts.” Excludes debt service on the 2010 Bonds, which are expected to be refunded from proceeds of the Bonds. See the caption “FINANCING PLAN—Refunding Plan.”

Source: Fieldman, Rolapp & Associates, Inc.

SECURITY FOR THE BONDS

General

Each Bond is a special limited obligation of the Authority payable solely from Authority Revenues, which consist of Series 2020 Installment Payments to be made by the City under the Installment Purchase Agreement and certain other funds and accounts established pursuant to the Indenture. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE AUTHORITY ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE BONDS. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

All of the Authority Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account that is established pursuant to the Indenture (except the Rebate Fund) have been irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge constitutes a lien on and security interest in such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice hereof.

The Authority, for good and valuable consideration in hand received, has irrevocably assigned and transferred to the Trustee without recourse, for the benefit of the Owners of the Bonds as set forth in the Indenture, all of its rights, title, and interest in all Series 2020 Installment Payments payable by the City pursuant to the Installment Purchase Agreement, including all rights of the Authority thereunder as may be necessary to enforce compliance with said provisions (including enforcement of payment obligations and rate covenants, if any, contained in the Installment Purchase Agreement, or otherwise to protect the interest of the Owners of the Bonds). Such assignment is subject to and limited by the terms of the Indenture.

There is established under the Indenture with the Trustee the 2020A Bond Payment Fund, which the Trustee has covenanted to maintain and hold in trust separate and apart from other funds held by it so long as any Series 2020 Installment Payments remain unpaid. Except as directed in the Indenture, all Authority Revenues will be promptly deposited by the Trustee upon receipt thereof into the 2020A Bond Payment Fund; except that all moneys received by the Trustee and required under the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All Authority Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also create and maintain an Interest Account and a Principal Account within the 2020A Bond Payment Fund.

The Trustee will transfer from the 2020A Bond Payment Fund and deposit into the following respective accounts the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Authority 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) Not later than the day preceding each date on which the interest on the Bonds become due and payable under the Indenture, the Trustee will deposit in the Interest Account that sum, if any, 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. All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

(b) Not later than the day preceding each date on which the principal of the Bonds become due and payable under the Indenture, the Trustee will deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date or subject to mandatory sinking fund redemption on such date. All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at maturity, mandatory sinking fund redemption, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such Bonds, upon written direction of the Authority, the Trustee will 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 directed pursuant to a Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Series 2020 Installment Payments Payable From Net Revenues

The obligation of the City to make the Series 2020 Installment Payments is payable solely from Net Revenues of the City's Water System, which consist of Revenues of the City's Water System remaining after the payment of Operation and Maintenance Costs of the City's Water System. All Revenues (as such term is defined below) of the City's Water System and all amounts on deposit in the Revenue Fund have been irrevocably pledged to the payment of the Series 2020 Installment Payments as provided in the Installment Purchase Agreement. The Revenues will not be used for any other purpose while any of the Series 2020 Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement, including but not limited to the payment of Operation and Maintenance Costs of the Water System.

The term "**Revenues**" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing: (1) all income, rents, rates, fees, charges or other moneys derived by the City from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System; (2) the proceeds of any stand-by or water availability charges, development fees and connection charges collected by the City with respect to the Water System; (3) the earnings on and income derived from the investment of amounts described in clauses (1) and (2) above including City Water System reserves; (4) any interest payments on Bonds or Contracts reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program; but excluding (x) customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; (y) any proceeds of taxes or assessments restricted by law to be used by the City to pay Bonds or Contracts or other obligations heretofore or hereafter issued; and (z) revenues of any water system acquired through merger, consolidation or similar action to the extent that the exclusion of such acquired water system is required pursuant to the terms of such merger, consolidation or similar action.

Upon the maturity or earlier redemption of the 2015 Bonds: (i) "Revenues" will also include all amounts transferred from the Rate Stabilization Fund, if such a fund is established, to the Revenue Fund during any Fiscal Year in accordance with the Installment Purchase Agreement; and (ii) "Revenues" will not include any amounts transferred from the Revenue Fund to the Rate Stabilization Fund, if such a fund is established, during any Fiscal Year in accordance with the Installment Purchase Agreement. See the caption "—Rate Stabilization Fund."

The above-described pledge, together with the pledge created by all other Bonds and Contracts (as such terms are defined in Appendix B under the caption "INSTALLMENT PURCHASE AGREEMENT—Definitions" and referred to in the forepart of this Official Statement as "**Parity Bonds and Contracts**" or "**Parity Bonds or Contracts**," as applicable), constitutes a first lien on Revenues and, subject to application of Revenues and all amounts on deposit in the Revenue Fund as permitted in the Installment Purchase Agreement, the Revenue Fund and other funds and accounts created thereunder for the payment of the Series 2020

Installment Payments and all other Parity Bonds and Contracts in accordance with the terms thereof and of the Indenture.

Notwithstanding anything contained in the Installment Purchase Agreement, the City is not required to advance any moneys derived from any source of income other than the Revenues and the Revenue Fund for the payment of amounts due under the Installment Purchase Agreement or for the performance of any agreements or covenants that are required to be performed by it contained therein. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

THE OBLIGATION OF THE CITY TO MAKE SERIES 2020 INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE THE SERIES 2020 INSTALLMENT PAYMENTS IS A SPECIAL LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES OF THE CITY'S WATER SYSTEM AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Allocation of Revenues

In order to carry out and effectuate the pledge and lien on Revenues contained in the Installment Purchase Agreement, the City has agreed and covenanted that all Revenues will be received by the City in trust and deposited when and as received in a special fund designated as the "**Revenue Fund**," which fund has been established and which fund the City has agreed and covenanted to maintain and to hold separate and apart from other funds so long as any Installment Payments or Bonds remain unpaid. Moneys in the Revenue Fund will be used and applied by the City as provided in the Installment Purchase Agreement.

The City will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts which are reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable. All remaining moneys in the Revenue Fund will be set aside by the City at the following times in the following respective special funds in the following order of priority, and all moneys in each of such funds will be held in trust and applied, used and withdrawn only for the purposes authorized in the Installment Purchase Agreement:

(a) 2020A Bond Payment Fund. On or before each Series 2020 Installment Payment Date, the City will, from remaining moneys in the Revenue Fund, transfer to the Trustee for deposit in the 2020A Bond Payment Fund an amount that is equal to the interest and principal payable and coming due on the 2020A Bonds on the next succeeding Series 2020 Installment Payment Date. The City will also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of the Contract, Bond, resolution or indenture relating thereto.

Any moneys which are on deposit in the 2020A Bond Payment Fund on each Series 2020 Installment Payment Date (other than amounts that are required for the payment of past due principal or interest with respect to any 2020A Bonds not presented for payment) will be credited to the payment of the Series 2020 Installment Payments due and payable on such date. No deposit need be made in the 2020A Bond Payment Fund as Series 2020 Installment Payments if the amount in the 2020A Bond Payment Fund is at least equal to the amount of the Series 2020 Installment Payment that is due and payable on the next succeeding Series 2020 Installment Payment Date.

(b) Reserve Funds. On or before each Series 2020 Installment Payment Date, the City will, from remaining moneys in the Revenue Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for deposit to reserve funds or accounts established for Bonds or Contracts an amount that is equal to the amount required to be deposited therein.

(c) Surplus. Moneys on deposit in the Revenue Fund which are not necessary to make any of the payments which are required above may be expended by the City at any time for any purpose permitted by law or deposited in the Rate Stabilization Fund, if established.

Rate Covenant

Pursuant to the Installment Purchase Agreement, the City has covenanted to set rates and charges for the Water System as follows:

(a) In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund, if established, on the first day of such Fiscal Year is less than the Series 2020 Installment Payments payable in such Fiscal Year, the City will, to the fullest extent permitted by law, fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water Service which are reasonably expected, at the commencement of each Fiscal Year, to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 125% of the Debt Service for such Fiscal Year. When calculated for the foregoing purposes, Net Revenues do not include amounts which are transferred from the Rate Stabilization Fund, if established, to the Revenue Fund that are in excess of 25% of Debt Service for such Fiscal Year.

(b) In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund on the first day of such Fiscal Year is at least equal to the Series 2020 Installment Payments payable in such Fiscal Year, to the fullest extent permitted by law, the City will fix and prescribe, at the commencement of each such Fiscal Year, rates and charges for the Water Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues equal to 100% of Debt Service for such Fiscal Year. When calculated for the foregoing purposes, Net Revenues do not include any amounts which are transferred from the Rate Stabilization Fund, if established.

(c) The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but may not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements. To the extent that the covenant with respect to rates and charges in connection with any Bonds or Contracts differs from the foregoing covenant, the City will also comply with the covenant with respect to rates and charges in connection with such Bonds or Contracts.

No Reserve Fund

No reserve fund or account has been established under the Indenture or the Installment Purchase Agreement in connection with the issuance of the Bonds.

Additional Parity Bonds and Contracts

The City is currently obligated to make payments under outstanding Parity Bonds and Contracts which are described under the caption "THE CITY—Outstanding Parity Bonds and Contracts." The City may at any time execute or issue additional Parity Bonds or Contracts, as the case may be, in accordance with the Installment Purchase Agreement; provided that:

(a) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the

issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by a report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the City, produce a sum equal to at least 125% of the Debt Service for such twelve month period. When calculated for the foregoing purposes, Net Revenues do not include amounts transferred from the Rate Stabilization Fund, if established, to the Revenue Fund pursuant to the Indenture that are in excess of 25% of Debt Service for such Fiscal Year; and

(b) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, including adjustments to give effect as of the first day of such twelve month period to increases or decreases in rates and charges for the Water Service approved and in effect as of the date of calculation, as evidenced by a report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the City, shall have produced a sum equal to at least 125% of the Debt Service for such twelve month period plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such twelve month period, assuming that such Contracts had been executed or Bonds had been issued at the beginning of such twelve month period, plus the Debt Service which would have accrued had such proposed additional Contract been executed or such proposed additional Bonds been issued at the beginning of such twelve month period. When calculated for the foregoing purposes, Net Revenues do not include amounts transferred from the Rate Stabilization Fund, if established, to the Revenue Fund pursuant the Indenture that are in excess of 25% of Debt Service for such Fiscal Year; and

(c) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Project to be financed from proceeds of such Contracts or Bonds, as evidenced by a certificate of the City Manager on file with the City, including (after giving effect to the completion of all such uncompleted Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the City Manager on file with the City, will produce a sum equal to at least 125% of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Projects.

Rate Stabilization Fund

Upon the maturity or earlier redemption of the 2015 Bonds, the City is authorized but not required to establish a special fund designated as the "Rate Stabilization Fund." If the City elects to establish a Rate Stabilization Fund, such fund will be held by the City in trust under the Installment Purchase Agreement. The City has agreed and covenanted to maintain and to hold such fund, if established, separate and apart from other funds so long as any Parity Bonds or Contracts remain unpaid. Money transferred by the City from the Revenue Fund to the Rate Stabilization Fund, if established, in accordance with the Installment Purchase Agreement will be held in the Rate Stabilization Fund and applied in accordance with the Installment Purchase Agreement.

The City may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund, if established, and transfer such amounts to the Revenue Fund for application in accordance with the Installment Purchase Agreement or, in the event that all or a portion of the Series 2020 Installment Payments are discharged in accordance with the Installment Purchase Agreement, transfer all or any portion of such amounts for application in accordance with the Installment Purchase Agreement. Any such amounts transferred from the Rate Stabilization Fund, if established, to the Revenue Fund in accordance with the Installment Purchase Agreement constitute pledged Revenues.

THE CITY

General

The City was incorporated in 1956 under the general laws of the State of California (the “**State**”). The City occupies a land area of approximately 17.9 square miles and serves a residential population of approximately 175,000. The City is located in northern Orange County (the “**County**”), approximately 35 miles south of the City of Los Angeles. Land use in the City is primarily residential, with areas of commercial and industrial development. See the caption “—Land Use and Service Area.”

The City provides a full range of municipal services, including public safety (police), street construction and maintenance, engineering and development services, sanitation, water and sewer utilities, culture and recreation, public improvements and general administrative and support services. As of August 16, 2019, the Orange County Fire Authority has assumed responsibility for fire protection services within the City.

The City supplies potable water to approximately 31,315 residential, 1,653 commercial and 1,491 industrial and other connections within the boundaries of the City and a small portion of the unincorporated area of the County adjacent to the City.

The City has two water sources: (i) groundwater that is extracted from 11 City-owned wells in the Orange County Groundwater Basin (the “**Basin**”); and (ii) treated water that is imported from the Colorado River and northern and central California by The Metropolitan Water District of Southern California (“**MWD**”) and purchased by the City from the Municipal Water District of Orange County (“**MWDOC**”), an MWD member agency. The City has recently voluntarily stopped groundwater extractions from two of its wells as a result of State regulations relating to substances known as PFAS, as described under the caption “THE WATER SYSTEM—Water Quality—PFAS.” The City expects to purchase additional imported water supplies from MWDOC to serve customer demand while such wells are out of service.

The Water System includes approximately 436 miles of water mains, 8 storage tanks with a total storage capacity of approximately 53 million gallons (which would be sufficient to serve the Water System’s customers for approximately 2 days, assuming water use based on historical averages) and 5 booster stations. See the caption “THE WATER SYSTEM—General.”

Land Use and Service Area

The City provides potable water to a service area of 18 square miles, including the territory within City limits and a small portion of the unincorporated area of the County adjacent to the City. The Water System’s service area is largely built out, with only infill development expected in the future. The service area encompasses single family and multi-family residences as well as areas of commercial, industrial and public agency land uses.

All of the land within the Water System’s service area is served by the City alone. New residents and businesses in the service area are required to connect to the Water System.

Seismic Considerations

The City is located in a seismically active region. Significant faults are located near the City, including the Newport-Inglewood Fault. There is potential for destructive ground shaking during the occurrence of a major seismic event. In addition, land along fault lines may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure within the City, including the Water System. The City has an emergency operations plan that would be implemented under such circumstances.

Certain Water System facilities have been rehabilitated and upgraded to minimize potential damage from an earthquake. The City has also undertaken a vulnerability assessment of critical Water System facilities. The vulnerability assessment ranks City infrastructure by importance, builds redundancy into existing operations and includes contingency plans in the event of damage to City assets and succession plans for critical staff. The impact of lesser magnitude events is expected by the City to be temporary, localized and repairable. The Water System has never sustained major damage to its facilities or experienced extended incidences of service interruptions as a result of seismic disturbances. All facilities have been designed and constructed in compliance with regulations set forth in the California Water Code, standards of the American Water Works Association and the City’s construction standards.

The City does not maintain earthquake insurance on Water System facilities other than the Public Works Municipal Service Center, where administrative functions of the Water System are carried out. See the captions “—City Insurance” and “CERTAIN RISKS TO BONDHOLDERS—Natural Disasters.”

Governance and Management

General. The City operates under a council-manager form of government. The City Council consists of six members elected by district for overlapping four-year terms and a mayor elected Citywide for a two-year term. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees and appointing a City Manager and a City Attorney.

City of Garden Grove Mayor and City Council

<i>Name</i>	<i>Term Expires</i>
Steven R. Jones, Mayor	2020
John R. O’Neill, Mayor Pro Tem, Council Member, District 2	2020
George S. Brietigam III, Council Member, District 1	2022
Diedre Thu-Ha Nguyen, Council Member, District 3	2022
Patrick Phat Bui, Council Member, District 4	2022
Stephanie Klopfenstein, Council Member, District 5	2020
Kim B. Nguyen, Council Member, District 6	2020

The City has nine departments. The Water System is primarily operated by the Water Services Division of the City’s Public Works Department, with support provided by the Finance Department and other departments. Department heads are overseen by the City Manager’s office. A summary of certain City executive staff are described below.

The City Manager’s office provides oversight of all City departments and directs the implementation of policies and programs adopted by the City Council. The current City Manager is Scott C. Stiles. Mr. Stiles has been with the City since 2015. Prior to coming to the City, Mr. Stiles served in a variety of roles for the City of Cincinnati, Ohio, including as Interim City Manager. He has over 30 years of experience in public administration. Mr. Stiles has a Bachelor of Science degree from South Dakota State University and Master of Community Planning degree from the University of Cincinnati.

The City’s Finance Department is led by Patricia Song, Director of Finance. Ms. Song has been with the City since 2019. Prior to coming to the City, Ms. Song served as Manager of Fiscal Services for the City of Irvine, California, Finance Manager for the City of Corona, California and Accounting Manager for the City of Ontario, California. She has over 16 years of experience in municipal finance. Ms. Song has Masters of Business Administration degrees in accounting and management information systems from California State University, San Bernardino. She is a certified public accountant.

The City's Public Works Department, including the Water System, is led by Bill Murray, Public Works Director. Mr. Murray has been with the City since 1998 and has served as Public Works Director since 2011. He has a Bachelor of Science degree from California State Polytechnic University, Pomona and is a registered professional engineer.

Management Policies. The City has adopted several policies which are designed to ensure the prudent and effective management of City operations, including a reserve policy, a debt management policy, a pension funding policy and an investment policy. Further information about such policies is set forth below.

Reserve Policy. The City's reserve policy was adopted in 2019. Under the policy, the City is committed to maintaining a General Fund reserve equal to 16.7% (or two months) of adopted General Fund operating revenues, with a goal of increasing the reserve to 30% of adopted General Fund operating revenues over time. The 30% target reserve level will be allocated as follows: (i) 16.7% will be comprised of funds in a Stability Reserve; and (ii) 13.3% will be comprised of funds in a Catastrophic Reserve.

The Stability Reserve is maintained to mitigate financial risks associated with unexpected revenue shortfalls due to changes in the economic environment. In times of economic downturn, if revenues are insufficient to meet the normal operating requirements of essential services, funds in the Stability Reserve may be used if authorized by a two-thirds vote of the City Council.

The Catastrophic Reserve is maintained to mitigate costs associated with a public emergency such as a natural disaster or other unforeseen event. The reserve will not be used to meet operational shortfalls or to fund new programs or personnel. Moneys in the Catastrophic Reserve will be expended only as necessary to ensure the safety of the City's residents and their property.

Should actual General Fund revenues exceed expenditures and encumbrances/carryovers, a year-end operating surplus will be reported. The year-end surplus may be used to fund the above-described target reserve levels as recommended by the City Manager and approved through the adoption of the biennial budget. See the caption "—Budget Process."

Debt Management Policy. The City's debt management policy was adopted in 2017 in compliance with California Government Code § 8855. The debt management policy establishes: (a) the purposes for which debt may be issued; (b) the types of debt that may be issued; (c) the relationship of the City's debt to its capital improvement program and budget; (d) policy goals related to the City's planning goals and objectives; and (e) internal control procedures governing City debt.

Pension Funding Policy. The City's pension funding policy was adopted in 2019. Under the policy, the City resolved to establish a plan to pay down its pension liabilities and/or stabilize future contribution rates. In accordance with the policy, the City Council adopted a resolution in November 2019 to establish an Internal Revenue Code § 115 trust (the "**Section 115 Trust**"), an irrevocable pension trust that is intended to pre-fund the City's pension liabilities. As of August 31, 2020, the City held \$1,426,909 in the Section 115 Trust. In addition, under the policy, pension fund contributions (based on actuarially determined contributions which are calculated in a manner that fully funds long-term costs while keeping contributions stable and equitably allocating costs over employees' period of service) have the same budget priority as other personnel costs such as salaries and benefits. The pension funding policy also requires the City to contribute no less than the full actuarially determined contribution each year, and pension benefit increases that require a contract amendment may not be approved until the City's pension plan reaches 100% funded status. See the caption "WATER SYSTEM FINANCIAL INFORMATION—Pension Obligations" for a description of the City's Miscellaneous pension plan and the Section 115 Trust.

Investment Policy. The City invests its funds in accordance with its investment policy, which is updated annually and complies with California Government Code § 53600 *et seq.* The policy sets forth the policies and procedures which are applicable to the investment of City funds and designates eligible investments.

The investment policy sets forth a stated objective, among others, of ensuring the safety of invested funds by limiting credit and market risks, with the 6-month Treasury bill serving as the City's yield benchmark. Funds are invested in the following order of priority:

- Safety of Principal;
- Liquidity; and
- Return on Investment.

Eligible investments include the Local Agency Investment Fund which is operated by the California State Treasurer ("LAIF"), United States Government agency, Federal Home Loan Bank, Federal National Mortgage Association and Federal Farm Credit Bank securities with a maximum maturity of 5 years, certificates of deposit (limited to 30% of the portfolio) and banker's acceptances (limited to 180-day maturities and 30% of the portfolio), among other investments.

The Finance Department is required to provide a monthly report to 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. As of June 30, 2020 the City had an investment portfolio of approximately \$279 million (excluding amounts held in the Section 115 Trust that is described under the caption "WATER SYSTEM FINANCIAL INFORMATION—Pension Obligations" and bond-related reserves). As of such date, the City had invested approximately 27% of its investment portfolio in LAIF, 48% in federal agency securities and 25% in Treasuries. Approximately \$20 million of the City's \$279 million investment portfolio was attributable to the Water System as of June 30, 2020. For additional information with respect to the City's cash and investments, see Note C.1 to the City's audited financial statements set forth in Appendix A.

Employees

As of June 30, 2020, the City had approximately 560 full-time equivalent employees. Certain employees of the City are represented by employee associations. In accordance with the provisions of California Government Code § 3500, the City participates in labor negotiations with its employee associations. The result of the negotiations processes are memorialized in memoranda of understanding ("MOUs") between the City and the employee associations. Employees that operate and support the Water System are represented by the Orange County Employees' Association, Garden Grove Chapter, under an MOU that expires on June 30, 2022 and the Orange County Employees' Association, Garden Grove Employees League, under an MOU that expires on June 30, 2022. Salaries and benefits for non-represented management employees of the Water System are established by resolution. The City has not experienced a strike, slowdown or work stoppage.

Budget Process

A key element of the City's financial management process is the development and approval of a biennial budget. The City's Municipal Code requires the City Manager to prepare and submit the proposed budget and salary plan to the City Council for approval every two years. The City Council conducts several public budget review sessions to obtain taxpayer input prior to adopting the budget at a public meeting. The legal level of budgetary control is at the department level. The City Council may amend the budget to increase or decrease appropriations or move appropriations between funds. The City Manager is authorized to transfer appropriations within a fund between the various programs and/or departments.

The budget for Fiscal Years 2020 and 2021 was adopted on June 25, 2019. Subsequently, during mid-cycle review, the amended budget for Fiscal Year 2021 (reflecting anticipated effects of the COVID-19 pandemic and associated economic recession) was adopted by City Council on June 23, 2020.

City Insurance

The City is self-insured for the first \$1 million of workers' compensation, per occurrence. Excess coverage is in place with a joint powers authority and commercial insurers up to the statutory limits. The City is also self-insured for the first \$2 million of general liability, per occurrence. Excess coverage is in place with a joint powers authority and commercial insurers up to an additional \$33 million, per occurrence.

The City maintains property coverage through the Public Entity Insurance Program which provides up to \$275 million per occurrence, "All Risks" coverage, and \$100 million per occurrence for Boiler and Machinery Coverage. The City also maintains earthquake coverage for scheduled buildings up to \$23.5 million per occurrence. The City's earthquake coverage does not include Water System facilities other than the Public Works Municipal Service Center, where administrative functions of the Water System are carried out.

Certain portions of the Water System, including pipelines, are not covered by the City's property insurance. See the caption "CERTAIN RISKS TO BONDHOLDERS—Natural Disasters."

The City has not settled any claims that exceeded its insurance coverage in the past three years.

The City can provide no assurance that it will maintain the above insurance coverage amounts while the Bonds are outstanding. See Appendix B under the caption "INSTALLMENT PURCHASE AGREEMENT—Covenants of the City—Insurance" for a description of insurance coverages that are required to be maintained while the Bonds are outstanding.

Outstanding Parity Obligations

In 2015, the City issued the 2015 Bonds to refinance the acquisition and construction of certain Water System capital improvements. The 2015 Bonds, which bear interest at the rate of 2.00% per annum, are currently outstanding in the aggregate principal amount of \$3,805,000 and are payable by the City from Net Revenues of the City's Water System in semiannual installments, with a final payment due in 2023. The 2015 Bonds are payable from Net Revenues on a parity with the Series 2020 Installment Payments, which secure the Bonds.

The City is permitted to incur additional obligations that are payable from Net Revenues on a parity with the Series 2020 Installment Payments in the future upon satisfaction of the conditions that are described under the caption "SECURITY FOR THE BONDS—Additional Parity Bonds and Contracts."

Financial Statements

A copy of the most recent audited basic financial statements of the City prepared by Davis Farr LLP, Irvine, California (the "**Auditor**") is set forth in Appendix A. The Auditor's letter dated December 4, 2019 is located at the beginning of the Financial Section therein.

The summary operating results that are contained under the caption "WATER SYSTEM FINANCIAL INFORMATION—Historical Operating Results and Debt Service Coverage" are derived from these financial statements and audited financial statements for prior Fiscal Years (excluding certain non-cash items and after certain other adjustments), and are qualified in their entirety by reference to such statements, including the notes thereto. In addition, the City has provided estimated actual results for Fiscal Year 2020 herein.

The City accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to public entities ("**GAAP**"). Generally, the City recognizes revenues and expenses on the modified accrual basis of accounting, meaning that revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For such purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period and

expenditures generally are recorded when a liability is incurred, as under accrual accounting. Accordingly, in certain cases, GAAP requires or permits moneys that are collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses that are paid or incurred in one Fiscal Year to be recognized as expenses in a subsequent Fiscal Year. Debt service expenditures are recorded only when payment is due. See Note A.3 to the financial statements that are set forth in Appendix A. Except as otherwise expressly noted herein, all financial information that has been derived from the City's audited financial statements reflects the application of GAAP.

The Water System Fund of the City is accounted for as a proprietary fund type (enterprise fund) using the economic resources measurement focus. In governmental accounting, enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges for sales and services. Operating expenses for enterprise and internal service funds include salaries and employee benefits, maintenance and operation of systems and facilities, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

COVID-19 Outbreak

The spread of the novel strain of coronavirus called SARS-CoV-2, which causes the disease known as COVID-19 ("**COVID-19**"), and local, State and federal actions in response to COVID-19, are having a significant impact on the City's operations and finances. In response to the increasing number of cases of COVID-19 infections and fatalities, health officials and experts have recommended, and some governments have mandated, a variety of responses ranging from travel bans and social distancing practices to complete shutdowns of certain services and facilities. The World Health Organization has declared the COVID-19 outbreak to be a pandemic and on March 4, 2020, as part of the State's response to address the outbreak, the Governor declared a state of emergency. On March 13, 2020, the President declared a national emergency, freeing up funding for federal assistance to state and local governments. Many school districts across the State have temporarily closed some or all school campuses (including schools within the City) in response to local and State directives or guidance. On March 19, 2020, the Governor issued Executive Order N-33-20, a mandatory Statewide shelter-in-place order applicable to all non-essential services. Certain aspects of the shelter-in-place directives have been extended indefinitely until indicators for modifying the stay-at-home order have been met. The County and the City have also declared a state of emergency in response to the COVID-19 outbreak.

On March 27, 2020, the President signed the \$2.2 trillion Coronavirus Aid, Relief, and Economic Stabilization Act (the "**CARES Act**") which provides, among other measures, \$150 billion in financial assistance to states, tribal governments and local governments to provide emergency assistance to those most significantly impacted by COVID-19. Under the CARES Act, local governments are eligible for reimbursement of certain costs which are expended to address the impacts of the pandemic, although the City cannot predict what State and/or federal funding or other relief it will ultimately receive. Any funds received by the City under the CARES Act are not available for payment of the Series 2020 Installment Payments and cannot be used to backfill any City revenue losses related to COVID-19.

The effects of the COVID-19 outbreak and governmental actions responsive to it are altering the behavior of businesses and people in a manner that is having significant negative impacts on global and local economies. In addition, financial markets in the United States and globally have seen significant declines and

experienced significant volatility attributed to COVID-19 concerns. Volatility in the financial markets has impacted the California Public Employees Retirement System's ("CalPERS") earnings, which could result in a significant increase in the City's unfunded pension liability and future pension costs, commencing in Fiscal Year 2024. See the caption "WATER SYSTEM FINANCIAL INFORMATION—Pension Obligations." The outbreak has resulted in increased pressure on State finances, as budgetary resources are directed towards containing the pandemic and tax revenues sharply decline. Identified cases of COVID-19 and deaths attributable to the COVID-19 outbreak are continuing to increase throughout the United States, including the County.

Potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the public health system in and around the City, cancellations of public events and disruption of the regional and local economy with corresponding decreases in the City's revenues, including as a result of reduced water use (particularly among commercial and hotel establishments), and potential declines in property values.

In response to the COVID-19 outbreak, the City has declared the Water System to be an essential service and has staggered employee shifts, enabled certain employees to telecommute and moved employees to multiple locations in order to prevent large gatherings of Water System personnel at any one time and to better maintain employees' health and the operations of the Water System. In addition, on-site personnel are wearing masks and practicing social distancing while working. Access to City Hall has been restricted and City Council meetings are occurring via teleconference. The City does not foresee an impact on Water System operations at this time as a result of the COVID-19 outbreak.

In addition, the State Governor has suspended utility service shutoffs (including for the Water System) for the duration of the public health emergency declared by the State, and the City will not seek to collect late fees or penalties. Although no service charges are being forgiven, the City expects its accounts receivable amount to increase as a result of the foregoing policy. See the caption "THE WATER SYSTEM—Water System Collection Procedures."

The COVID-19 outbreak is ongoing, and the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the City and the Water System is unknown. Based on unaudited actual results, the City does not expect Fiscal Year 2020 Water System revenues or expenses to be below budgeted amounts or below audited Fiscal Year 2019 results as a result of the COVID-19 outbreak.

Similarly, the City's amended Fiscal Year 2021 budget, which includes consideration of the effect of the COVID-19 outbreak and an anticipated recession, does not reflect an expected financial impact on the Water System. The City continues to actively monitor customer usage, revenues and delinquencies so that any further impacts can be anticipated. See the caption "WATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage."

CalPERS has reported a preliminary 4.7% investment return in Fiscal Year 2020, which was below its investment target. The City also expects that CalPERS' earnings could be reduced in Fiscal Year 2021 as a result of stock market declines in the wake of the COVID-19 outbreak, which could increase future contribution rates for plan participants, including the City. The City is unable to estimate the magnitude of any such increases at this time. See the caption "WATER SYSTEM FINANCIAL INFORMATION—Pension Obligations."

As shown under the caption "THE WATER SYSTEM—Largest Water System Customers," many of the City's top water customers are commercial and industrial businesses, hotels, multi-unit residential complexes and schools. Hotel occupancy within the City, and consequently water use by such customers, was reduced in Fiscal Year 2020, and the City expects such reductions to continue in Fiscal Year 2021 as a result of the COVID-19 outbreak. However, as noted under the caption "THE WATER SYSTEM—Water System Rates and Charges—Adopted Rates and Charges," the City's water rates include fixed monthly rates that are payable

without regard to the amount of water used, which mitigates a portion of the impact of reduced water use by hotels and other commercial customers.

THE WATER SYSTEM

General

The Water System commenced operations in 1958, at which time various private water companies also served customers within the City's boundaries. In the intervening years, the City assumed responsibility for the provision of water service to such companies' customers and the City is currently the sole water service provider to customers within City limits.

The City supplies potable water to approximately 31,315 residential, 1,653 commercial and 1,491 industrial and other connections within the boundaries of the City and a small portion of the unincorporated area of the County adjacent to the City.

The City has two water sources: (i) groundwater that is extracted from 11 City-owned wells in the Basin; and (ii) treated water that is imported from the Colorado River and northern and central California by MWD and purchased by the City from MWDOC, an MWD member agency. The City has recently voluntarily stopped groundwater extractions from two of its wells as a result of State regulations relating to substances known as PFAS, as described under the caption "—Water Quality—PFAS." The City expects to purchase additional imported water supplies from MWDOC to serve customer demand while such wells are out of service.

The Water System includes approximately 436 miles of water mains, 8 storage tanks with a total storage capacity of approximately 53 million gallons (which would be sufficient to serve the Water System's customers for approximately 2 days, assuming water use based on historical averages) and 5 booster stations. The City also maintains several emergency interconnections with neighboring agencies.

The City does not currently supply non-potable or recycled water to customers.

Water Quality

General. The City's water sources consist of groundwater that is extracted from the Basin and potable imported water that is supplied by MWD through MWDOC. Groundwater supplies are subject to comprehensive testing by Water System staff in order to ensure that they meet all State and Federal regulatory requirements prior to delivery to customers. On occasion, groundwater from certain City wells is blended with imported water to ensure compliance with applicable standards. MWD water is treated by MWD to potable water standards as described under the caption "—Water Supply—Imported Water" before being delivered to customers.

PFAS. In 2019, the State of California Water Resources Control Board's Division of Drinking Water (the "**Division**") lowered the Notification Levels for Perfluorooctanoic acid ("**PFOA**") and Perfluorooctanesulfonic acid ("**PFOS**") to 5.1 and 6.5 parts per trillion ("**PPT**"), respectively. Notification Levels are non-regulatory, precautionary health-based measures for concentrations of chemicals in drinking water that warrant notification and further monitoring and assessment. In 2020, the Division lowered the Response Level (the "**RL**") for PFOA and PFOS from 70 PPT, combined, to 10 to 40 PPT, each. RLs are non-regulatory, precautionary health-based measures that are set at higher levels than Notification Levels and represent thresholds at which the Division recommends that water utilities remove a water source from use or treat it.

PFOA and PFOS are fluorinated organic chemicals which are part of a family of synthetic compounds that are known as per- and polyfluoroalkyl substances ("**PFAS**"). PFAS are water and lipid resistant substances that are useful for a variety of manufacturing processes and industrial applications. They are often present in water supplies which are in close proximity to wastewater treatment plant effluent or active or former military

installations. The City understands that recent technological advances have enabled water suppliers to detect PFAS compounds at very low concentrations.

In 2019, the City conducted testing of its groundwater sources for PFOA and PFOS. Such testing revealed the presence of PFOA and PFOS at levels above the lowered RL in two of the City's groundwater wells. As a result, the City voluntarily elected to stop groundwater production from such wells. The City expects to purchase additional imported water supplies from MWDOC to serve customer demand while such wells are out of service.

In order to assist water producers and facilitate the removal of PFAS from groundwater sources in the Basin, the Orange County Water District ("OCWD"), which manages the Basin, has proposed to pay for the design and construction of treatment facilities consisting of a filtering system to remove PFAS from the Basin. The City has entered into an agreement with OCWD pursuant to which OCWD will design and construct PFAS treatment facilities at OCWD's expense at the two City wells that have been shut down. The City expects such facilities to be operational within two years, at which time the City can resume production from the wells, subject to the same payments to OCWD that apply to groundwater production from other City wells which have not been impacted by PFAS. However, the appropriate design for the facilities is still being studied and there can be no assurance as to the ultimate type of facilities to be constructed or the timing of completion thereof. Although the City will be obligated to operate and maintain the PFAS treatment facilities for a period of up to 30 years, the City's agreement with OCWD enables the City to seek reimbursement from OCWD for up to half of the operation and maintenance costs of the facilities at the rate of \$75 per acre foot of groundwater produced.

The City does not anticipate that implementation of the lowered PFAS Response Level by the Division will have a material adverse effect on the operation of the Water System or the City's ability to make the Series 2020 Installment Payments. The projected operating results which are set forth under the caption "WATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" assume higher water supply costs for two years as a result of the purchase of relatively more expensive imported water to replace the supplies from the two wells which have been taken out of service, and additional Operation and Maintenance Costs to operate and maintain the new treatment facilities that are being constructed by OCWD after the two year construction period. Notwithstanding the foregoing, there can be no assurance that additional State regulations related to PFOA or PFOS, or new regulations related to PFAS other than PFOA or PFOS, will not result in the imposition of additional costs on the Water System.

Water Supply

The City has two water sources: (i) groundwater that is extracted from City-owned wells in the Basin, which comprised approximately 50% of the City's water supply in Fiscal Year 2020; and (ii) treated water that is imported from the Colorado River and northern and central California by MWD and purchased by the City from MWDOC, an MWD member agency, which comprised approximately 50% of the City's water supply in Fiscal Year 2020. The City's water sources fluctuate from year depending upon the price and availability of imported water supplies, the purchase of which allows the City to maintain its groundwater supplies in the Basin for use during years when imported water is relatively more expensive.

Groundwater.

City Wells. The City produces groundwater from 11 currently active City-owned groundwater wells (not including the two wells described in the following paragraph from which the City is not currently extracting groundwater) which are located throughout the City. The City's wells draw groundwater from the Basin, which is managed by OCWD as described below under the subcaption "—OCWD." The Basin is estimated to have a total water storage capacity of approximately 66,000,000 acre feet. The City's wells have been drilled to an average depth of 1,014 feet and produce high quality water that meets all State and Federal drinking water standards. See the caption "—Water Quality—General." Total average production from the City's wells in Fiscal Year 2020 (including production from the two wells described in the following paragraph

from which the City is not currently extracting groundwater) was approximately 10 MGD, and total maximum daily production capacity from the City's wells (including the two wells that are described in the following paragraph) is approximately 55.5 MGD.

The City has recently voluntarily stopped groundwater extractions from two of its wells as a result of State regulations relating to substances known as PFAS, as described under the caption “—Water Quality—PFAS.” The City expects to purchase additional imported water supplies from MWDOC to serve customer demand while such wells are out of service. See the subcaption “—Imported Water” below. Accordingly, the City expects that it will purchase more imported water and produce less groundwater in Fiscal Years 2021 and 2022 compared to Fiscal Year 2020. See the captions “—Historical Water System Supply” and “—Projected Water System Supply” for historical and projected information with respect to the City's sources of water supply.

Orange County Groundwater Basin. Water used within the present boundaries of the City historically originated exclusively in the Santa Ana River watershed, an area embracing approximately 2,000 square miles in Orange, Riverside and San Bernardino Counties. The Santa Ana River originates in the San Bernardino Mountains northeast of the City of San Bernardino and flows to the southwest through San Bernardino County to Riverside County. Near the northern Riverside County border, the Santa Ana River flows through a geologic formation known as the Riverside Narrows, which acts to confine the river and the groundwater flow beneath to a narrow flow. The Santa Ana River then flows from the Riverside Narrows through Riverside County in a southwestern direction, passing into the County from the Corona area, flowing through the Santa Ana Canyon and then onto the coastal plain that constitutes most of the northwestern portion of the County. Except during periods of storm flows, the Santa Ana River flows underground for most of its length.

Early settlers along the Santa Ana River constructed facilities in the Santa Ana Canyon and Anaheim areas to divert the surface and flood flows of the Santa Ana River, primarily for irrigation purposes. As agricultural and domestic water use along the Santa Ana River increased, farmers, ranchers and municipal and private corporations began pumping water from the Basin which was recharged by the sub-surface flow of the Santa Ana River.

In 1941, the United States Army Corps of Engineers (the “**Corps**”) constructed a flood control dam on the Santa Ana River just north of the river's entrance into the Santa Ana Canyon area (“**Prado Dam**”). Since Prado Dam was completed, the Corps has operated it primarily as a flood control facility, with certain incidental water conservation activities.

Prior to 1969, Santa Ana River water users above Prado Dam in Riverside and San Bernardino Counties (the “**Upper Basin**”) and in the Basin came increasingly into conflict over water flows in the Santa Ana River. These conflicts led to a series of lawsuits which culminated in a stipulated judgment entered by the Superior Court for the County of Orange in 1969 (the “**1969 Stipulation**”) affirming a negotiated settlement of Santa Ana River water rights disputes between the Upper Basin and the Basin. Under the 1969 Stipulation, San Bernardino Valley Municipal Water District is obligated to deliver an average annual supply of 15,250 acre feet of Santa Ana River base flow to the Riverside Narrows (subject to certain adjustments which could reduce such amount but in no event below 12,420 acre feet annually). In addition, Chino Basin Municipal Water District and Western Municipal Water District are obligated to deliver an average annual supply of 42,000 acre feet of Santa Ana River base flow to Prado Dam (subject to certain adjustments which could reduce such amount to 34,000 acre feet annually), and OCWD is entitled to all storm flows reaching Prado Dam. The above-described obligations can increase under certain circumstances, if necessary to maintain water quality at Riverside Narrows or Prado Dam, as applicable. The 1969 Stipulation also includes provisions relating to inter-basin exports of water and water rights acquisitions and reserves the continuing jurisdiction of the Superior Court, but it does not adjudicate the water rights of individual water users within the Basin or the Upper Basin.

The 1969 Stipulation created a watermaster for the Santa Ana River (the “**Watermaster**”), which is a committee of five court-appointed members, including two members nominated by OCWD. The Watermaster

is charged with administration and reporting with respect to the 1969 Stipulation. If the Watermaster, which can act only upon the unanimous vote of its five members, fails or is unable to make necessary findings or determinations, the Superior Court is empowered to do so.

Sections of the Prado Dam spillway were recently determined by federal regulators to need repair. The operator of the Prado Dam (the Corps) downgraded the overall safety rating of Prado Dam from “moderate urgency” to “high urgency” as a result. Based on information provided by OCWD, the City does not believe that any proposed modifications to the operation of Prado Dam would have a material adverse impact on the capture and storage of Santa Ana River storm flows behind Prado Dam. In the event that Prado Dam undergoes repair, the Water System would not be responsible for any portion of the costs thereof.

OCWD. OCWD was formed in 1933 and has a service area that encompasses approximately 381 square miles in the County, including substantially all of the northern half of the County and all of the land within City limits. OCWD’s primary role is to manage and replenish the Basin, and the City’s groundwater production is governed by rules and regulations established by OCWD.

OCWD establishes and collects replenishment assessments as a means of purchasing water and funding projects to replenish the Basin. The replenishment assessment is established annually by OCWD and applies to every acre foot of groundwater produced from the Basin.

In addition, and per statute, OCWD sets a basin production percentage (the “**BPP**”) for water to be extracted from the Basin. The BPP is the amount of groundwater, as a percentage of the total water demands of a groundwater pumping agency such as the City, that can be pumped from the Basin during the year by the groundwater pumping agency without incurring the additional assessment that is described in the following paragraph. It is set both annually and uniformly for all producers. Multiplying the BPP against a producer’s total water demand yields a groundwater production limit (the “**BPP formula**”), and OCWD imposes an additional assessment on the producer for all groundwater pumped in excess of that limit.

The additional assessment incurred by an agency that pumps groundwater above the limit established by the BPP formula is called the basin equity assessment (the “**BEA**”). The BEA is established annually by OCWD and is intended to discourage pumping of amounts above the BPP formula by raising the cost of producing groundwater so that it is comparable to the cost of importing water, thereby encouraging groundwater pumping agencies to supplement their groundwater production with imported water for the portion of their water use that exceeds the BPP. The BEA is a surcharge to discourage, yet still allow for, the production of groundwater in excess of the BPP formula. One of the Water System’s operating objectives is to minimize the production of groundwater in excess of the BPP formula in order to minimize the BEA payment. In Fiscal Year 2020, the City did not pay a BEA to OCWD.

OCWD has sought to enable groundwater producers to derive a larger percentage of their water supplies from local sources in times of Statewide drought so that such producers can reduce purchases of imported water at increased rates. For these reasons, in the last five years, the BPP has ranged from 62% to 77%, and it is currently set at 77%. See the caption “—Recent Drought.” The City currently pays OCWD a replenishment assessment of \$487 per acre foot for all groundwater pumped. In the event that the City were to produce groundwater in excess of the BPP formula, the BEA is currently equal to an additional \$547 per acre foot. The City also incurs energy costs to pump groundwater from the Basin.

Because OCWD already manages the Basin, the Basin is not subject to the provisions of the Sustainable Groundwater Management Act, a legislative effort to regulate groundwater on a Statewide basis.

OCWD faces various challenges in managing the Basin. A description of these challenges as well as a variety of other operating information with respect to OCWD is included in certain disclosure documents prepared by OCWD. OCWD periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. OCWD has also entered into certain continuing disclosure

agreements pursuant to which OCWD is contractually obligated for the benefit of owners of certain of its outstanding obligations to file annual reports, including audited financial statements and notice of specified events, pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (“**Rule 15c2-12**”). Such official statements, other disclosure documents, annual reports and notices (collectively, the “**OCWD Information**”) are filed with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“**EMMA**”), which is accessible on the Internet at <http://emma.msrb.org>. The OCWD Information is not incorporated herein by reference thereto, and the City makes no representation as to the accuracy or completeness of such information. OCWD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE CITY, THE AUTHORITY, THE TRUSTEE OR THE OWNERS OF THE BONDS TO PROVIDE OCWD INFORMATION TO THE CITY OR THE OWNERS OF THE BONDS.

OCWD HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION THAT IS CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO OCWD. OCWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE CITY OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

Imported Water. The City purchases treated water that is imported from the Colorado River and northern and central California by MWD. The City’s purchases are made through MWDOC, an MWD member agency.

MWD was created in 1928 by vote of the electorates of certain Southern California cities to provide a supplemental supply of water for domestic and municipal uses at wholesale to its member agencies. The MWD service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. MWD has 26 member agencies, consisting of 14 cities, 11 municipal water districts and one county water authority. MWD is governed by a Board of Directors (the “**MWD Board**”), which currently has 38 members. Each member agency has at least one representative on the MWD Board. Representation and voting rights are based upon each member agency’s assessed valuation. The total population of the MWD service area is approximately 19 million.

MWD member agencies (including MWDOC) request water from MWD at various delivery points within MWD’s service area and pay for such water at uniform rates that are established by the MWD Board for each class of service. For planning purposes, each MWD member agency advises MWD annually in December of its anticipated delivery requirements for each of the five following fiscal years. Charges for water delivered are billed monthly and payable by the end of the second month following delivery.

MWD’s principal sources of water are Colorado River supplies which are imported through the Colorado River Aqueduct and supplies from northern and central California which are imported through the State Water Project. The same water rate is charged for water provided from each source. Colorado River water is transported from Lake Havasu through the Colorado River Aqueduct to a terminus at Lake Mathews, which is located northeast of the City in the County of Riverside. State Water Project water is delivered to southern California by MWD through the 444-mile California Aqueduct. The eastern branch of the California Aqueduct terminates at Lake Perris, which is located northeast of the City in the County of Riverside, and the western branch of the California Aqueduct terminates at Castaic Lake north of the City. Water from all sources is treated to potable water standards by MWD at the Diemer Filtration Plant, a 520 million gallon per day (“**MGD**”) capacity water treatment plant which is located northeast of the City in the City of Yorba Linda. The City maintains four connections to MWD feeder lines.

MWD supplies water through its member agencies, including the member agency in which the City is situated, MWDOC. The City currently pays a fixed charge to MWDOC in the form of readiness to serve, capacity reservation and service connection charges. The readiness to serve and capacity reservation charges

are paid monthly and, as of June 30, 2020, totaled \$396,888 per year, while the service connection charge was \$12.40 per permanent potable water meter for Fiscal Year 2020 and is \$12.20 per permanent potable water meter for Fiscal Year 2021.

The following table sets forth MWD's current rates for treated water. The City does not purchase untreated water from MWD.

**The Metropolitan Water District of Southern California
Summary of Water Rates in Dollars per Acre Foot**

<i>Rates Effective Beginning⁽¹⁾</i>	<i>Full Service Domestic Treated Water Rate</i>	<i>Supply Rate</i>	<i>System Access Rate</i>	<i>Water Stewardship Rate⁽²⁾</i>	<i>System Power Rate</i>	<i>Treatment Surcharge</i>
January 1, 2020 Tier 1	\$1,078	\$208	\$346	\$65	\$136	\$323
January 1, 2020 Tier 2	1,165	295	346	65	136	323
January 1, 2021 Tier 1	1,104	243	373	0	161	327
January 1, 2021 Tier 2	1,146	285	373	0	161	327

(1) The Tier 1 rate is calculated as the amount of MWD's total supply revenue requirement that is not covered by the Tier 2 rate divided by the estimated amount of Tier 1 water sales. The Tier 2 rate is a volumetric rate that reflects MWD's cost of purchasing water transfers from northern California. The higher cost of purchasing water at the Tier 2 rate is intended to encourage MWD customers and retail users to maintain existing local supplies and develop cost-effective local supply resources and conservation. The City has not historically purchased water at the Tier 2 rate and does not expect to do so in the future.

(2) The Water Stewardship Rate will not be imposed in calendar years 2021 or 2022. The Water Stewardship Rate for calendar year 2023 and thereafter has not yet been determined by the MWD Board.

Source: City.

MWD faces various challenges in the continued supply of imported water to MWDOC. A description of these challenges as well as a variety of other operating information with respect to MWD is included in certain disclosure documents prepared by MWD. MWD periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. MWD has also entered into certain continuing disclosure agreements pursuant to which MWD is contractually obligated for the benefit of owners of certain of its outstanding obligations to file annual reports, including audited financial statements and notice of specified events, pursuant to Rule 15c2-12. Such official statements, other disclosure documents, annual reports and notices (collectively, the "**MWD Information**") are filed with EMMA. The MWD Information is not incorporated herein by reference thereto, and the City makes no representation as to the accuracy or completeness of such information. MWD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE CITY, THE AUTHORITY, THE TRUSTEE OR THE OWNERS OF THE BONDS TO PROVIDE MWD INFORMATION TO THE CITY OR THE OWNERS OF THE BONDS.

MWD HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION THAT IS CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO MWD. MWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE CITY OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

Recent Drought

State Orders. On January 17, 2014, after several years of below-average precipitation in the State, the State Governor declared a drought state of emergency (the "**Declaration**") with immediate effect. The Declaration encouraged local urban water suppliers, including the City, to implement their local water shortage

contingency plans; the City's plan is discussed under the caption "—Water Shortage Contingency Plan." The Declaration also required the State of California Department of Water Resources ("DWR") and the State Water Resources Control Board (the "SWRCB") to craft and enforce numerous emergency regulations that were designed to reduce water usage and increase water supplies.

For instance, a May 2015 SWRCB regulation required the City to effect a 20% reduction from its 2013 potable water usage. On May 18, 2016, the SWRCB adopted a revised regulation that gave water agencies the ability to establish their own conservation standards based on a "stress test" of supply reliability. By June 22, 2016, water agencies were required to submit self-certifications to the SWRCB demonstrating that they had sufficient supplies to withstand three additional years of severe drought. Any identified percentage gap between supplies and demands became the water agency's updated mandatory conservation target.

The City's self-certification demonstrated that it had sufficient supplies to meet its projected demands, even if the State were to have endured three more years of drought. Consequently, the City's mandatory conservation target was eliminated retroactive to June 1, 2016.

On April 7, 2017, after significant improvement in water supply conditions across the State, the Governor issued Executive Order B-40-17, which rescinded mandatory conservation measures for most California counties (including the County).

The City is currently operating under Stage 1 of its water shortage contingency plan, as described under the caption "—Water Shortage Contingency Plan."

In 2018, the California Governor signed Senate Bill 606 and Assembly Bill 1668 into law. These bills relate to water conservation and drought planning and empower DWR and the SWRCB to adopt long-term standards on water use. The City is unable to predict the substance, timing of adoption or effect on the Water System of the implementation of Senate Bill 606 and Assembly Bill 1668 or any future legislation with respect to water conservation.

Water Shortage Contingency Plan. Under the City's water shortage contingency plan, which is codified in Title 14, Chapter 40 of the City's Municipal Code, the City responds to a water shortage by City Council action in stages as follows:

- Stage 1 (Voluntary Conservation – Water Watch) applies during times when the City desires to foster water conservation and water consumption reduction. In Stage 1, the following voluntary measures are encouraged: (i) lawn watering and landscape irrigation should be limited to once every other day and prohibited between the hours of 10:00 a.m. and 5:00 p.m.; (ii) washing of vehicles should be limited to once every other day unless undertaken at a commercial car wash and only with a water shut-off device or a low-volume, high-pressure cleaning machine equipped to recycle any water used; and (iii) the use of a pool/spa cover is encouraged to prevent evaporation water loss.

- Stage 2 (Mandatory Conservation – Water Alert) applies during periods when the City Council determines that due to drought or other water supply conditions, a water supply shortage or threatened shortage exists and a consumer demand reduction is necessary. In Stage 2, the following water conservation measures are mandated: (i) lawn watering and landscape irrigation is permitted only on Tuesdays and Saturdays and prohibited between the hours of 10:00 a.m. and 5:00 p.m.; and (ii) washing of vehicles (other than at a commercial car wash) must be undertaken only with a water shut-off device or a low-volume, high-pressure cleaning machine equipped to recycle any water used.

- Stage 3 (Mandatory Conservation – Water Watch) applies during periods when there is a critical differential between supply and demand and it is determined that demand cannot be reduced sufficiently through Stage 1 and 2 measures to remain within the available supply. In Stage 3, the following water conservation measures are mandated: (i) lawn watering and landscape irrigation is permitted only on Tuesdays

and Saturdays and prohibited between the hours of 10:00 a.m. and 6:00 p.m.; (ii) washing of vehicles is prohibited except at commercial car washes or for vehicles such as refuse trucks and those transporting food and perishables, and commercial car washes must reduce water use by 20%; (iii) the use of water softening devices is prohibited; (iv) water leaks must be repaired immediately; and (v) new construction meters will not be issued.

- Stage 4 (Mandatory Conservation – Water Emergency) applies during periods of severe drought and/or when a major failure of any supply or distribution facility, whether temporary or permanent, occurs in the water distribution system of the State Water Project, MWD, MWDOC or City. In Stage 4, the following water conservation measures are mandated: (i) irrigation of landscaped areas, agricultural and commercial nursery water use, the washing of vehicles (except refuse trucks and those transporting food and perishables) and the filling of swimming pools and ornamental water features is prohibited; (ii) new construction meters will not be issued; (iii) the use of water for commercial, manufacturing or processing purposes will be reduced in volume by 50%; (iv) no water may be used for air conditioning purposes; and (v) water leaks must be repaired immediately.

Violation of the water shortage contingency plan constitutes a misdemeanor and may be punishable by prosecution or the imposition of civil penalties.

The projected Water System operating results that are set forth under the caption “WATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” reflect the continued implementation of Stage 1 of the City’s water shortage contingency plan. The City does not currently expect that the implementation of other stages of its water shortage contingency plan in the future will have a material adverse effect on its ability to pay the Series 2020 Installment Payments from Net Revenues. As discussed under the caption “—Water System Rates and Charges,” the City’s rate structure consists of variable and fixed rate components. Decreased water consumption is partially offset by a decrease in related variable costs, while fixed water charges largely cover the City’s fixed operating and maintenance costs. In addition, the City will covenant and agree to set Water System rates and charges in amounts that it expects to be sufficient to pay the Series 2020 Installment Payments from Net Revenues. See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

If a water shortage should arise again in the future, legal issues exist as to whether different California Water Code provisions or State regulations will be invoked to manage the allocation of water. Any curtailment pursuant to State orders could necessitate an increase in Water System rates and charges. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218” for a discussion of certain restrictions on the City’s ability to raise water rates.

Historical Water System Supply

The following table shows sources of supply for the Water System for the last five Fiscal Years.

City of Garden Grove Historical Water Sources in Acre Feet

<i>Fiscal Year Ended June 30</i>	<i>Groundwater</i>	<i>MWD Purchases</i>	<i>Total</i>	<i>Percentage Increase/(Decrease)</i>
2016	18,216.4	3,301.4	21,517.8	N/A%
2017	19,881.1	2,294.3	22,175.4	3.06
2018	14,270.2	8,565.8	22,836.0	2.98
2019	19,500.3	3,454.2	22,954.5	0.52
2020 ⁽¹⁾	11,026.8	10,951.7	21,978.5	(4.25) ⁽²⁾

⁽¹⁾ In early 2020, the City voluntarily stopped production from two of its groundwater wells while certain treatment facilities are being constructed. See the caption “—Water Quality—PFAS.” The City expects to import additional MWD water while the two wells are out of service.

⁽²⁾ Decrease reflects conservation efforts by Water System customers.

Source: City.

Historical Water System Deliveries

The following table shows historical deliveries for the Water System for the last five Fiscal Years.

City of Garden Grove Historical Water Deliveries in Acre Feet⁽¹⁾

<i>Fiscal Year Ended June 30</i>	<i>Water Deliveries</i>	<i>Percentage Increase/(Decrease)</i>
2016	19,928.9	N/A%
2017	20,535.9	3.05
2018	22,459.3	9.37
2019 ⁽²⁾	20,497.3	(8.74)
2020 ⁽²⁾	20,207.6	(1.41)

⁽¹⁾ Differences between Water System deliveries and total Water System supplies described under the caption “—Historical Water System Supply” reflect water held for storage purposes, fire hydrant use in emergencies, water losses from water main breaks and leaks and inaccuracies in water meter readings.

⁽²⁾ Decrease reflects water conservation efforts by District customers.

Source: City.

Historical water deliveries reflect connections to the Water System as well as water demand, which can be affected by weather conditions, State mandates and other factors.

Historical Water System Connections

The following table shows the number of connections to the Water System for the last five Fiscal Years.

City of Garden Grove Historical Water System Connections

<i>Fiscal Year Ended June 30</i>	<i>Residential</i>	<i>Commercial</i>	<i>Industrial/Other</i>	<i>Total</i>	<i>Percentage Increase/(Decrease)</i>
2016	31,211	1,648	1,454	34,313	N/A%
2017	31,235	1,641	1,468	34,344	0.09
2018	31,242	1,647	1,466	34,355	0.03
2019	31,264	1,641	1,475	34,380	0.07
2020	31,315	1,653	1,491	34,459	0.23

Source: City.

Historical Water System Sales Revenues

The following table shows the water sales revenues of the Water System, excluding investment income and other revenues, for the last five Fiscal Years.

City of Garden Grove Historical Water System Sales Revenues

<i>Fiscal Year Ended June 30</i>	<i>Residential</i>	<i>Commercial</i>	<i>Industrial/Other</i>	<i>Total</i>	<i>Percentage Increase/(Decrease)</i>
2016	\$20,935,650	\$ 3,560,467	\$4,636,239	\$29,132,356	N/A%
2017	23,085,203	3,740,847	5,256,724	32,082,775	10.13
2018	25,457,164	4,061,644	5,994,909	35,513,716	10.69
2019	26,676,460	4,305,373	5,978,238	36,960,070	4.07
2020 ⁽¹⁾	28,196,089	4,458,642	5,935,005	38,589,735	4.41

⁽¹⁾ Reflects unaudited estimated actual amounts based on available information to date. Subject to change.
Source: City.

Water System sales revenues reflect water deliveries as well as adopted rates and charges. See the captions “—Historical Water System Deliveries” and “—Water System Rates and Charges.”

Largest Water System Customers

The following table shows the largest customers of the Water System for the Fiscal Year ended June 30, 2020, as determined by water sales revenues.

City of Garden Grove Ten Largest Water System Customers

<i>Customer Name</i>	<i>Customer Type</i>	<i>Revenues</i>	<i>Percentage of Total Water System Sales Revenues</i>
House of Foods	Commercial	\$ 531,590	1.38%
Great Wolf Lodge	Hotel/Entertainment	170,337	0.44
Pai	Industrial	144,654	0.37
Hyatt	Hotel	117,975	0.31
House of Foods	Commercial	116,185	0.30
Chapman Commons	Multi-Unit Residential	114,515	0.30
Willowick Royal	Multi-Unit Residential	109,638	0.28
Santiago High School	School	107,030	0.28
Embassy Suites	Hotel	103,366	0.27
Rancho Alamitos High School	School	<u>93,844</u>	<u>0.24</u>
	Total	\$1,609,134	4.17%

Source: City.

These customers accounted for approximately 4.17% of total Water System sales Revenues of \$38,589,735 (reflecting unaudited estimated actual results based on available information to date) in Fiscal Year 2020.

Water System Rates and Charges

General. The Water System's rates and charges are set by the City Council and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The City is, however, required to comply with the notice, hearing and majority protest provisions of Article XIII D of the State Constitution, which is popularly known as Proposition 218, as to its water rates and charges. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" for further information with respect to Proposition 218.

The City reviews forecasted revenues and expenditures at least once every two years as part of its biennial budget process with full consideration given to expected operations, maintenance and capital costs and capital repayment obligations of the Water System. See the caption "THE CITY—Budget Process." Water rate studies are conducted to determine rate adjustments when necessary. The City Council currently sets water rates and charges at a level that it determines is sufficient to pay all Operation and Maintenance Costs of the Water System, to make debt service payments and to maintain appropriate reserves for the Water System.

On March 27, 2018, after a public hearing as required under Proposition 218, the City Council adopted a comprehensive rate plan for Water System customers (the "**Water Rate Plan**"), including Water System rate increases effective in Fiscal Years 2018 through 2022. With respect the City's commodity rates, the Water Rate Plan authorizes the City to make further adjustments to pass through to customers any increases in water supply costs imposed upon the City by MWD, MWDOC or OCWD. See the caption "—Water Supply." The Water Rate Plan remains in place as of the date hereof. There can be no assurance that the City Council will not repeal or modify such rate increases in the future or that the City's ratepayers will not approve an initiative to repeal or modify any increase in water rates and charges approved by the City Council. The City expects to retain a consultant to undertake its next rate study in 2022.

The projected operating results which are set forth under the caption “WATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” do not assume Water System rate increases above Fiscal Year 2022 levels which have not yet been adopted by the City Council.

Adopted Rates and Charges. The Water System’s rates and charges include the following: (1) a fixed bi-monthly water service charge; (2) a fixed bi-monthly fire protection service charge; (3) a fixed bi-monthly capital improvements charge; and (4) a commodity rate.

(1) Fixed Bi-Monthly Water Service Charge. The City imposes the following fixed bi-monthly water service charge based on water meter size:

**City of Garden Grove
Fixed Bi-Monthly Water Service Charge**

<i>Meter Size</i>	<i>Current Rates</i>	<i>January 1, 2021</i>
5/8” and 3/4”	\$ 29.63	\$ 31.95
1”	47.18	49.00
1½”	75.72	77.09
2”	109.12	110.40
3”	193.24	197.04
4”	285.80	293.57
6”	566.55	572.34
8”	891.66	901.56
10”	1,305.45	1,331.67

Source: City.

(2) Fixed Bi-Monthly Fire Protection Service Charge. The City imposes the following fixed bi-monthly fire protection service charge based on water meter size on customers with 1½” or larger meters:

**City of Garden Grove
Fixed Bi-Monthly Fire Protection Service Charge**

<i>Meter Size</i>	<i>Current Rates</i>	<i>January 1, 2021</i>
1½”	\$ 2.79	\$ 2.89
2”	5.95	6.16
3”	17.31	17.92
4”	36.88	38.17
6”	107.13	110.88
8”	228.29	236.28
10”	410.55	424.92

Source: City.

(3) Fixed Bi-Monthly Capital Improvements Charge. The City imposes the following fixed bi-monthly capital improvements charge based on water meter size:

**City of Garden Grove
Fixed Bi-Monthly Capital Improvements Charge**

<i>Meter Size</i>	<i>Current Rates</i>	<i>January 1, 2021</i>
5/8" and 3/4"	\$ 5.00	\$ 6.00
1"	12.50	15.00
1½"	25.00	30.00
2"	40.00	48.00
3"	80.00	96.00
4"	125.00	150.00
6"	250.00	300.50
8"	400.00	480.00
10"	600.00	720.00

Source: City.

(4) Commodity Rates. The City imposes commodity rates based on water allowances for customers. A "water allowance" refers to the allocation of a reasonable amount of water for a customer's bi-monthly water usage based on such customer's meter size. Customers are billed on a 2-tier basis per hundred cubic feet of water ("CCF") used in each billing cycle. The current Tier 1 thresholds are as follows:

**City of Garden Grove
Tier 1 Thresholds by Meter Size**

<i>Meter Size</i>	<i>Maximum Tier 1 Water Use (in CCF)</i>
5/8" and 3/4"	33
1"	83
1½"	165
2"	264
3"	528
4"	825
6"	1,650
8"	2,640
10"	3,960

Source: City.

Current commodity rates are set forth below.

**City of Garden Grove
Water Commodity Rates per CCF**

<i>Water Rate Tier</i>	<i>Current Rates</i>	<i>January 1, 2021⁽¹⁾</i>
Tier 1	\$3.09	\$3.09
Tier 2	4.32	4.32

⁽¹⁾ Reflects minimum amounts established under Water Rate Plan. May be subject to automatic pass-through adjustments based on water supply costs, as described above under the subcaption "—General."

Source: City.

Comparison to Nearby Service Providers. The table below sets forth a comparison of the City's typical monthly water bill for a single family residential user to those of certain nearby water purveyors. Information

for agencies other than the City is as of calendar year 2019, while information for the City is as of the date of this Official Statement.

City of Garden Grove and Nearby Service Providers Water Rate Comparison

The table below sets forth a comparison of a typical monthly water bill (14 CCF) for a single family residential user to those of certain nearby water purveyors. The City bills bi-monthly and the rate shown below is an equivalent monthly rate.

<i>Water Service Provider</i>	<i>Rate</i>
South Coast Water District ⁽¹⁾	\$99.48
City of San Juan Capistrano	93.21
City of San Clemente	91.21
El Toro Water District	61.72
Santa Margarita Water District ⁽²⁾	55.78
City of Garden Grove	38.95
Irvine Ranch Water District	38.88
Moulton Niguel Water District ⁽³⁾	38.76

⁽¹⁾ Includes assumed \$22.45 peak demand charge. Actual charge varies by customer and is paid through property tax bills.

⁽²⁾ Assumes Zone 3 power charge of \$0.11 per CCF.

⁽³⁾ Does not reflect portion of water charges recouped from customers through property tax bills.

Source: City.

Water System Collection Procedures

The City is on a bi-monthly billing cycle for Water System customers. All water bills are due and payable on the date of billing and become delinquent 35 days thereafter. A late penalty will be assessed on the 43rd day after billing. If such bills remain unpaid after 60 days of being delinquent, water service is subject to termination until all fees, charges, penalties and the entire delinquent balance have been paid. The City's water service shutoff policy complies with Senate Bill 998, recent legislation which restricts the discontinuation of water service to delinquent customers effective February 1, 2020. As of June 30, 2020, less than 8% of the City's Water System's customers were delinquent in the payment of their bills. The City reports that most customers pay their bills in full, including late charges, prior to shutoff. See the caption "THE CITY—COVID-19 Outbreak" for a discussion of the suspension of water shutoffs for the duration of the State-declared public health emergency. The suspension will prevent the City from imposing late charges and penalties, but no water service charges are being forgiven.

Future Water System Improvements

The City projects total capital improvements to the Water System of approximately \$20 million over the current and next four Fiscal Years, including the 2020 Project, as described under the caption "FINANCING PLAN—The 2020 Project," and fire hydrant, gate valve and meter replacement projects. Such capital improvements are expected to be financed by a combination of the Bonds, grants and Revenues remaining after payment of the Series 2020 Installment Payments. The City does not anticipate entering into any additional Parity Obligations in the current or next four Fiscal Years to finance such capital improvements.

Projected Water System Supply

The following table shows the sources of supply for the Water System projected by the City for the current and next four Fiscal Years. As discussed under the caption "—Water Supply—Groundwater," the City has recently voluntarily stopped groundwater extractions from two of its wells as a result of State regulations

relating to PFAS. The City expects to purchase additional amounts of imported water supplies from MWDOC in the next two Fiscal Years (compared to past purchases) in order to serve customer demand while such wells are out of service. The City expects that treatment facilities will be completed thereafter which will enable the City to resume pumping from such wells. See the caption “—Water Quality—PFAS.”

**City of Garden Grove
Projected Water Sources in Acre Feet**

<i>Fiscal Year Ending June 30</i>	<i>Groundwater</i>	<i>MWD Purchases</i>	<i>Total</i>	<i>Percentage Increase/(Decrease)</i>
2021	14,885	8,015	22,900	4.19%
2022	14,969	8,061	23,030	0.57
2023	17,567	5,855	23,422	1.70
2024	17,666	5,888	23,554	0.56
2025	17,775	5,925	23,700	0.62

Source: City.

Projected Water System Deliveries

The following table shows projected deliveries for the Water System for the current and next four Fiscal Years.

**City of Garden Grove
Projected Water Deliveries in Acre Feet**

<i>Fiscal Year Ending June 30</i>	<i>Water Deliveries</i>	<i>Percentage Increase/(Decrease)</i>
2021	21,055	4.19%
2022	21,174	0.57
2023	21,293	0.56
2024	21,413	0.56
2025	21,534	0.57

Source: City.

Water System deliveries can be affected by a number of factors, including connections to the Water System, State mandates and weather conditions. See the caption “—Projected Water System Connections” above.

Projected Water System Connections

The following table shows the number of connections to the Water System projected by the City for the current and next four Fiscal Years.

**City of Garden Grove
Projected Water System Connections**

<i>Fiscal Year Ending June 30</i>	<i>Residential</i>	<i>Commercial</i>	<i>Industrial/Other</i>	<i>Total</i>	<i>Percentage Increase/(Decrease)</i>
2021	31,492	1,662	1,499	34,653	0.56%
2022	31,670	1,671	1,507	34,848	0.56
2023	31,849	1,680	1,516	35,045	0.57
2024	32,029	1,689	1,525	35,243	0.56
2025	32,210	1,699	1,534	35,443	0.57

Source: City.

Projected Water System Sales Revenues

The following table shows the sales revenues of the Water System projected by the City for the current and next four Fiscal Years, excluding investment income and other revenues. The projections are based on the projected water deliveries that are described under the caption “—Projected Water System Deliveries” and adopted rate increases in Fiscal Years 2021 and 2022 as described under the caption “—Water System Rates and Charges—Adopted Rates and Charges.”

**City of Garden Grove
Projected Water System Sales Revenues**

<i>Fiscal Year Ending June 30</i>	<i>Residential</i>	<i>Commercial</i>	<i>Industrial/Other</i>	<i>Total</i>	<i>Percentage Increase/(Decrease)</i>
2021	\$29,002,714	\$5,446,730	\$6,045,556	\$40,495,000	4.94%
2022	30,374,914	5,882,596	6,493,515	42,751,025	5.57
2023	30,947,069	5,895,526	6,532,958	43,375,553	1.46
2024	31,236,177	6,081,907	6,693,608	44,011,692	1.47
2025	31,533,460	6,247,000	6,852,619	44,633,079	1.41

Source: City.

WATER SYSTEM FINANCIAL INFORMATION

Available Cash

As of June 30, 2020, the Water Fund had approximately \$12.9 million in available unrestricted cash and investments.

Historical Operating Results and Debt Service Coverage

The following table is a summary of operating results of the Water System for the last five Fiscal Years. These results have been derived from the audited financial statements of the City, but exclude certain receipts which are not included as Revenues under the Installment Purchase Agreement and certain non-cash items and include certain other adjustments.

City of Garden Grove
Historical Water System Operating Results
Fiscal Year Ended June 30

	2016	2017	2018	2019	2020 ⁽¹⁾
Revenues					
Water Sales	\$ 29,132,356	\$ 32,082,775	\$ 35,513,716	\$ 36,960,070	\$ 38,589,735
Investment Income	144,357	33,147	153,521	602,450	253,391
Other ⁽²⁾	<u>184,058</u>	<u>229,559</u>	<u>279,630</u>	<u>269,489</u>	<u>188,961</u>
Total Revenues	\$ 29,460,771	\$ 32,345,481	\$ 35,946,867	\$ 37,832,009	\$ 39,032,087
Operation and Maintenance Costs					
Salaries and Wages ⁽³⁾	\$ 4,805,490	\$ 5,391,413	\$ 8,048,241	\$ 6,935,573	\$ 5,466,451
Materials and Supplies	615,910	432,726	384,141	444,346	381,934
Contractual Services	5,642,743	6,490,070	5,788,290	6,411,779	6,703,102
Water Production Expenses ⁽⁴⁾	<u>11,918,346</u>	<u>14,090,371</u>	<u>16,081,194</u>	<u>15,099,567</u>	<u>18,657,107</u>
Total Operation and Maintenance Costs	\$ 22,982,489	\$ 26,404,580	\$ 30,301,866	\$ 28,891,265	\$ 31,208,594
Net Revenues	\$ 6,478,282	\$ 5,940,901	\$ 5,645,001	\$ 8,940,744	\$ 7,823,493
Parity Obligations					
2010 Installment Purchase Agreement ⁽⁵⁾	\$ 1,376,390	\$ 1,372,640	\$ 1,381,115	\$ 1,376,740	\$ 1,369,390
2015 Bonds ⁽⁶⁾	<u>882,255</u>	<u>1,003,850</u>	<u>1,006,350</u>	<u>998,550</u>	<u>1,010,350</u>
Total Parity Obligations	\$ 2,258,645	\$ 2,376,490	\$ 2,387,465	\$ 2,375,290	\$ 2,379,740
Remaining Revenues	\$ 4,219,637	\$ 3,564,411	\$ 3,257,536	\$ 6,565,454	\$ 5,443,753
Parity Obligations Coverage	2.87	2.50	2.36	3.76	3.29

(1) Reflects unaudited estimated actual amounts based on available information to date. Subject to change.

(2) Includes sale of materials and other miscellaneous revenues. Also includes federal subsidy payments relating to the 2010 Bonds.

(3) Does not reflect application of GASB 68, as described under the caption “—Pension Obligations.”

(4) Includes purchases of water from MWD, which constituted an average of approximately 20% of total Operation and Maintenance Costs in Fiscal Years 2016 through 2020, respectively.

(5) This obligation is expected to be refunded from proceeds of the Bonds. See the caption “FINANCING PLAN—Refunding Plan.”

(6) See the caption “THE CITY—Outstanding Parity Obligations.”

Source: City.

Projected Operating Results and Debt Service Coverage

Estimated projected operating results for the Water System for the current and next four Fiscal Years, reflecting certain significant assumptions concerning future events and circumstances, are set forth below. The financial forecast represents the City’s estimate of projected financial results based on a variety of assumptions, including those set forth in the footnotes to the table set forth below. All of such assumptions are material in the development of the City’s financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

City of Garden Grove
Projected Water System Operating Results
Fiscal Year Ending June 30⁽¹¹⁾

	2021 ⁽¹⁾	2022	2023	2024	2025
Revenues					
Water Sales ⁽²⁾	\$ 40,495,000	\$ 42,751,025	\$ 43,375,553	\$ 44,011,692	\$ 44,633,079
Investment Income ⁽³⁾	250,000	250,000	250,000	250,000	250,000
Other ⁽⁴⁾	100,000	100,000	100,000	100,000	100,000
Total Revenues	<u>\$ 40,845,000</u>	<u>\$ 43,101,025</u>	<u>\$ 43,725,553</u>	<u>\$ 44,361,692</u>	<u>\$ 44,983,079</u>
Operation and Maintenance Costs					
Salaries and Wages ⁽⁵⁾	\$ 6,481,940	\$ 6,741,218	\$ 7,010,866	\$ 7,291,301	\$ 7,582,953
Materials and Supplies ⁽⁶⁾	837,353	858,287	879,744	901,738	924,281
Contractual Services ⁽⁷⁾	6,112,423	6,265,234	6,421,864	6,582,411	6,746,971
Water Production Expenses ⁽⁸⁾	22,343,197	24,514,898	18,215,405	18,922,894	19,641,964
Total Operation and Maintenance Costs	<u>\$ 35,774,913</u>	<u>\$ 38,379,636</u>	<u>\$ 32,527,880</u>	<u>\$ 33,698,344</u>	<u>\$ 34,896,169</u>
Net Revenues	\$ 5,070,087	\$ 4,721,389	\$ 11,197,674	\$ 10,663,348	\$ 10,086,909
Parity Obligations					
2010 Installment Purchase Agreement ⁽⁹⁾	\$ -	\$ -	\$ -	\$ -	\$ -
2015 Bonds ⁽¹⁰⁾	1,001,750	1,002,850	1,013,450	939,300	-
2020 Installment Purchase Agreement*	148,725	347,800	1,150,000	1,754,400	1,748,200
Total Parity Obligations*	<u>\$ 1,150,475</u>	<u>\$ 1,350,650</u>	<u>\$ 2,163,450</u>	<u>\$ 2,693,700</u>	<u>\$ 1,748,200</u>
Remaining Revenues*	\$ 3,919,612	\$ 3,370,739	\$ 9,034,224	\$ 7,969,648	\$ 8,338,709
Parity Obligations Coverage*	4.41	3.50	5.18	3.96	5.77

(1) Reflects amended Fiscal Year 2021 budgeted amount with certain adjustments.

(2) Based on projected Water System Revenues described under the caption "THE WATER SYSTEM—Projected Water System Sales Revenues." See the caption "CERTAIN RISKS TO BONDHOLDERS—Accuracy of Assumptions."

(3) Projected to remain at Fiscal Year 2021 budgeted amount.

(4) Includes sale of materials and other miscellaneous revenues.

(5) Projected to increase by approximately 4% per annum.

(6) Projected to increase by approximately 2.5% per annum.

(7) Projected to increase by approximately 2.5% per annum.

(8) Reflects additional purchases of imported water supplies from MWDOC in Fiscal Years 2021 and 2022 while two of the City's wells are out of service as a result of PFAS regulations. See the caption "THE WATER SYSTEM—Water Supply—Groundwater." Projected to increase by approximately 3.8% per annum thereafter.

(9) This obligation is expected to be refunded from proceeds of the Bonds. See the caption "FINANCING PLAN—Refunding Plan."

(10) Reflects scheduled debt service. This obligation matures in Fiscal Year 2024. See the caption "THE CITY—Outstanding Parity Obligations."

(11) Totals may not add due to rounding.

Source: City.

Employee Benefits

Pension Obligations. The portion of the City's pension obligations that is attributable to the Water System constitutes an Operation and Maintenance Cost of the Water System and is payable prior to the Series 2020 Installment Payments. The following information about the City's pension obligations is limited to the portion of such obligations that is attributable to the Water System to the extent that such information is available.

Accounting and financial reporting by state and local government employers for defined benefit pension plans is governed by Governmental Accounting Standards Board ("GASB") Statement No. 68 ("GASB 68"). GASB 68 governs the accounting treatment of defined benefit pension plans, including how expenses and liabilities are calculated and reported by state and local government employers in their financial statements. GASB 68 includes the following components: (i) unfunded pension liabilities are included on the employer's balance sheet; (ii) pension expense incorporates rapid recognition of actuarial experience and investment returns and is not based on the employer's actual contribution amounts; (iii) lower actuarial discount rates are required

* Preliminary, subject to change.

to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. GASB 68 affects the City's accounting reporting and disclosure requirements, but it does not affect the City's pension plan funding obligations.

The City participates in a Miscellaneous plan to fund pension benefits for employees that operate and support the Water System, with such benefits constituting an Operation and Maintenance Cost of the Water System that is payable prior to the Series 2020 Installment Payments. The City's Miscellaneous plan is administered by CalPERS. CalPERS administers an agent multiple-employer public employee defined benefit pension plan for all of the City's full-time and certain part-time employees. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries and acts as a common investment and administrative agent for participating public entities within the State, including the City. CalPERS plan benefit provisions and all other requirements are established by State statute and the City Council.

Miscellaneous plan participants who were hired before January 1, 2013 are subject to different benefit levels than employees who were hired on or after January 1, 2013 and who were not previously CalPERS members. Benefit provisions for Miscellaneous plan participants are set forth below.

City of Garden Grove
CalPERS Miscellaneous Pension Plan – Summary of Benefit Provisions

	<i>Employees Hired Before January 1, 2013</i>	<i>Employees Hired On or After January 1, 2013 (AB 340)</i>
Benefit Formula	2.5% @ age 55	2.0% @ age 62
Benefit Vesting	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Benefit Calculation	Highest Year	Highest Average 36 months
Retirement Age	50-55	52-67
Monthly Benefits as % of Salary	2.0% - 2.5%	1.0% - 2.5%
Fiscal Year 2021 Employee Contribution Rate	8.0% ⁽¹⁾	6.75% ⁽²⁾
Fiscal Year 2021 Employer Contribution Rate	11.056% ⁽³⁾	11.056% ⁽³⁾

⁽¹⁾ Employees who were hired before January 1, 2013 are required to make the full employee contribution.

⁽²⁾ Employees who were hired on or after January 1, 2013 are required to make the full employee contribution.

⁽³⁾ Reflects normal cost rate. For informational purposes only. CalPERS no longer collects required contributions based on a percentage of payroll.

Source: City.

Pension benefits are funded in part by contributions from participants (i.e., employees) and in part by contributions from the City.

Miscellaneous plan participants who were hired on and after January 1, 2013 and who were not previously CalPERS members receive benefits based on a 2.0% at age 62 formula; such employees are required to make the full amount of required employee contributions themselves in an amount equal to 50% of the total normal cost under the California Public Employees' Pension Reform Act of 2013 ("AB 340"), which was signed by the State Governor on September 12, 2012. AB 340 established a new pension tier – 2.0% at age 62 formula, with a maximum benefit formula of 2.5% at age 67. Benefits for such participants are calculated on the highest average annual compensation over a consecutive 36 month period. Employees are required to pay at least 50% of the total normal cost rate. AB 340 also caps pensionable income as noted below. Amounts are set annually,

subject to Consumer Price Index increases, and retroactive benefits increases are prohibited, as are contribution holidays and purchases of additional non-qualified service credit.

City of Garden Grove
Pensionable Income Caps for 2020 (AB 340 and Non-AB 340 Employees)

	<i>Before January 1, 2013 (Non-AB 340 Employees)</i>	<i>After January 1, 2013 (AB 340 Employees)</i>
Maximum Pensionable Income	\$285,000	\$151,549
Maximum Pensionable Income if also Participating in Social Security	N/A	\$126,291

Source: City.

Additional employee contributions, limits on pensionable compensation and higher retirement ages for new members as a result of the passage of AB 340 are expected to reduce the City's unfunded pension liability and potentially reduce City contribution levels in the long term.

The City is also required to contribute the actuarially determined amounts necessary to fund benefits for its members which are not contributed by employees. Employer contribution rates for all public employers are determined on an annual basis by the CalPERS actuary and are effective on July 1 of each year following notice of a change in the rate. The total minimum required employer contribution is the sum of the plan's employer normal cost rate (expressed as a percentage of payroll) plus the employer unfunded accrued liability contribution amount (prepaid annually in July). The normal cost rate is the annual cost of service accrual for the upcoming Fiscal Year of active employees.

The required normal cost employer contribution rates for the City's Miscellaneous plan for Fiscal Years 2019 and 2020 were as follows: (i) 9.528% and 10.329%, respectively, for the 2.5% at age 55 benefit level; and (ii) 6.00% and 6.00%, respectively, for the 2.0% at age 62 AB 340 benefit level. The required normal cost employer contribution rates for the City's Miscellaneous plan for Fiscal Year 2021 are 11.056% for the 2.5% at age 55 benefit level and 6.75% for the 2.0% at age 62 AB 340 benefit level.

Beginning in Fiscal Year 2018, CalPERS began collecting employer contributions toward a pension plan's unfunded liability as dollar amounts instead of the prior method of a percentage of payroll. According to CalPERS, this change was intended to address potential funding issues that could arise from a declining payroll or a reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to underfunding of pension plans. Due to stakeholder feedback regarding internal needs for total contributions expressed as an estimated percentage of payroll, the CalPERS reports include such results in the contribution projection for informational purposes only. Contributions toward a pension plan's unfunded liability will continue to be collected as set dollar amounts. The combined unfunded accrued liability amount for both of the City's pension tiers is \$8,131,029 for Fiscal Year 2021.

The City's required contributions to CalPERS fluctuate each year and, as noted, include a normal cost component and a component equal to an amortized amount of the unfunded liability. Many assumptions are used to estimate the ultimate liability of pensions and the contributions that will be required to meet those obligations. The CalPERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the CalPERS actuarial valuations, which adjustments may increase the City's required contributions to CalPERS in future years. Accordingly, the City cannot provide any assurances that the City's required contributions to CalPERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions.

CalPERS earnings reports for Fiscal Years 2010 through 2019 report investment gains of approximately 13.3%, 21.7%, 0.1%, 13.2%, 18.4%, 2.4%, 0.6%, 11.2%, 8.6% and 6.7%, respectively. In July 2020, CalPERS

reported a preliminary 4.7% investment return in Fiscal Year 2020, which was below its investment target. The City can provide no assurance that CalPERS' earnings will not be reduced in Fiscal Year 2021 as a result of stock market declines in the wake of the COVID-19 outbreak, which could increase future contribution rates for plan participants, including the City. See the caption "—COVID-19 Outbreak."

On December 21, 2016, the CalPERS Board of Administration voted to lower its discount rate from the current rate of 7.50% to 7.00% over a three-year period. For public agencies such as the City, the first discount rate reduction took effect July 1, 2018. Lowering the discount rate means that employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013 who were not previously CalPERS members will also see their contribution rates rise under AB 340. The reduction in the discount rate will result in average employer rate increases of approximately 1% to 3% of normal cost as a percentage of payroll for most Miscellaneous retirement plans such as the City's plan. Additionally, many employers will see a 30% to 40% increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring pension funds to a fully funded status over the long term.

For Fiscal Years 2018, 2019 and 2020, the City made required Miscellaneous plan contributions of \$6,015,462, \$11,800,179 and \$14,687,068, respectively, of which an average of approximately 15.7% was attributable to the Water System in each such Fiscal Year. The City currently expects its annual required contribution toward the pension plan's unfunded liability (excluding the normal cost) in Fiscal Year 2021 to be approximately \$7,860,562. The City currently expects to allocate approximately 15.7% of such amount to the Water System. Such contributions constitute an Operation and Maintenance Cost of the Water System that is payable prior to the Series 2020 Installment Payments. The City notes that contributions in future years (beginning in Fiscal Year 2022-23) may increase in the event of losses in CalPERS' portfolio resulting from stock market declines in the wake of the COVID-19 outbreak. See the caption "—COVID-19 Outbreak."

In November 2019, the City Council approved the establishment of the Section 115 Trust to provide the City with a mechanism for prefunding pension benefits. See the caption "—Governance and Management—Management Policies—Pension Funding Policy." The Section 115 Trust is administered by CalPERS. As of August 31, 2020, the City had \$1,426,909 on deposit in the Section 115 Trust. The Section 115 Trust holds funding contributions for the City's pending future remittances to CalPERS, which will pay all retiree benefit payments to employees. The City's total pension assets include funds held by both CalPERS and the Section 115 Trust, although under accounting rules, amounts held in the Section 115 Trust do not reduce the City's unfunded liability until they are transferred to CalPERS.

Portions of the above information are primarily derived from information that has been produced by CalPERS, its independent accountants and its actuaries. The City has not independently verified such information and neither makes any representations nor expresses any opinion as to the accuracy of the information that has been provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on CalPERS' Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information that concerns benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The City and the Authority cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

The City's Miscellaneous plan had a total net pension liability of approximately \$98,199,614 for the Fiscal Year ended June 30, 2018, approximately \$91,846,580 for the Fiscal Year ended June 30, 2019 and approximately \$97,669,489 for the Fiscal Year ended June 30, 2020, of which an average of approximately 17% was attributable to the Water System in each Fiscal Year. The portion of this liability, when paid down by the Water System, constitutes an Operation and Maintenance Cost of the Water System that is payable prior to the

Series 2020 Installment Payments. The net pension liability is the difference between the total pension liability and the fair market value of pension assets. The City's total pension assets include funds that are held by CalPERS, and its net pension asset or liability is based on such amounts. The City notes that its net pension liability could increase in the future as a result of losses in CalPERS' portfolio resulting from stock market declines in the wake of the COVID-19 outbreak. See the caption "—COVID-19 Outbreak."

A summary of principal assumptions and methods used to determine the total pension liability for Fiscal Year 2020 is shown below.

City of Garden Grove
Actuarial Assumptions for CalPERS Miscellaneous Pension Plan

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
<i>Actuarial Assumptions:</i>	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	3.00%
Investment Rate of Return	7.375% net of pension plan investment and administrative expenses; includes projected inflation rate of 2.75%
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' membership data for all funds

⁽¹⁾ The mortality table used was developed based on 15 years of projected mortality improvements using 90% of Scale MP 2016 published by the Society of Actuaries.

Source: City.

Changes in the net pension liability for the City's Miscellaneous plan were as follows:

City of Garden Grove
Changes in CalPERS Miscellaneous Pension Plan Net Pension Liability

	<i>Increase / (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability / (Asset)</i>
Balance at June 30, 2018	\$ 317,029,012	\$ 225,182,432	\$ 91,846,580
Net Changes for period from July 1, 2018 through June 30, 2019	<u>15,470,955</u>	<u>9,648,046</u>	<u>5,822,909</u>
Balance at June 30, 2019	\$ 332,499,967	\$ 234,830,478	\$ 97,669,489

Source: City.

The following table presents the net pension liability of the City's Miscellaneous plan, calculated using the discount rate as of Fiscal Year 2019 (7.15%), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

City of Garden Grove
Sensitivity of the Miscellaneous Plan Net Pension Liability to Changes in the Discount Rate

	<i>Fiscal Year 2020</i>		
	<i>Discount Rate – 1% (6.15%)</i>	<i>Discount Rate (7.15%)</i>	<i>Discount Rate + 1% (8.15%)</i>
Plan's Net Pension Liability/(Asset)	\$142,631,315	\$97,669,489	\$60,630,247

Source: City.

The City's projections of Operation and Maintenance Costs under the caption "WATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" do not reflect additional increases in CalPERS normal cost contributions in the future as a result of the COVID-19 outbreak, as the City is unable to quantify the magnitude of any such increases at this time, and any related increases in contributions will not be reflected until Fiscal Year 2023 and later. See the caption "—COVID-19 Outbreak." The City does not expect that any increased funding of pension benefits will have a material adverse effect on the ability of the City to make the Series 2020 Installment Payments.

For additional information relating to the City's CalPERS Miscellaneous pension plan, see Note C.11 to the City's audited financial statements set forth in Appendix A.

Post-Employment Benefits. In addition to the pension benefits that are described under the subcaption "—Pension Obligations," the City provides certain health care benefits for retired employees and eligible dependents. Such benefits constitute an Operation and Maintenance Cost of the Water System that is payable prior to the Series 2020 Installment Payments.

Substantially all of the City's full-time employees who are eligible for pension benefits may become eligible for such other post-employment benefits if they retire from the City at age 50 or older. As of June 30, 2020, (measurement date June 30, 2019), 617 active employees are entitled to these benefits and 298 inactive employees or beneficiaries were receiving benefit payments. Contributions of \$412,400, \$467,790 and \$487,137, respectively, were recognized for post-employment health care benefits in Fiscal Years 2018, 2019 and 2020, of which an average of approximately 6.7% was attributable to the Water System. Such contributions constituted an Operation and Maintenance Cost of the Water System that was payable prior to debt service on the Parity Obligations.

GASB Statement No. 75 ("**GASB 75**") requires governmental agencies to account for and report outstanding obligations and commitments related to post-employment benefits in essentially the same manner as for pensions. For the City, the reporting obligation began in Fiscal Year 2018.

The City retained Total Compensation Systems, Inc. (the "**Actuarial Consultant**") to calculate the City's post-employment benefits funding status. In a report dated August 19, 2020 (the "**Report**"), the Actuarial Consultant concluded that, as of June 30, 2019, the City's total liability for post-employment benefits was \$45,756,997. The City has budgeted \$493,998 for its post-employment benefit plan for Fiscal Year 2021 (which reflects the pay-as-you-go amount), of which approximately 9.1% is allocable to the Water System. Such obligation constitutes an Operation and Maintenance Cost of the Water System that is payable prior to the Series 2020 Installment Payments.

Changes in the net liability for the City's post-employment benefit plan were as follows.

City of Garden Grove
Changes in Post-Employment Benefit Plan Liability

	<i>Total Post-Employment Benefit Plan Liability</i>
Balance at June 30, 2018	\$18,203,123
Net Changes for period from July 1, 2018 through June 30, 2019	<u>27,553,874</u>
Balance at June 30, 2019	\$45,756,997

Source: City.

The following table presents the total liability of the City's post-employment benefits plan, calculated using the discount rate applicable to Fiscal Year 2019 (3.5%), as well as what the total post-employment benefit liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.5%) or 1 percentage point higher (4.5%) than the Fiscal Year 2019 rate:

City of Garden Grove
Sensitivity of the Post-Employment Benefit Plan Net Liability to Changes in the Discount Rate
(Dollars in Thousands)

	<i>Discount Rate – 1% (2.5%)</i>	<i>Fiscal Year 2019 Discount Rate (3.5%)</i>	<i>Discount Rate + 1% (4.5%)</i>
Plan's Net Liability/(Asset)	\$51,376,857	\$45,756,997	\$41,064,198

Source: City.

The City's projections of Operation and Maintenance Costs under the caption "WATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" do not assume unusual increases in post-employment benefit funding expenses in the future. However, future changes in funding policies and assumptions, including those related to the assumed rates of investment return and healthcare cost inflation, could trigger increases in the City's annual required contributions, and such increases could be material to the finances of the City. No assurance can be provided that such expenses will not increase significantly in the future. The City does not expect that any increased funding of post-employment benefits will have a material adverse effect on the ability of the City to make the Series 2020 Installment Payments.

For additional information relating to the post-employment benefit plan, see Note C.12 to the City's audited financial statements set forth in Appendix A.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

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

Appropriations that are subject to Article XIII B generally include the proceeds of taxes levied by or for the State or other entity of local government, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment, insurance and disability insurance funds. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from: (i) regulatory licenses, user charges, and user fees (but only to the extent that such proceeds exceed the cost reasonably borne by the entity in providing the service or regulation); and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amounts that are permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit, including payments of indebtedness that were existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters, and payments that are required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the provision of existing services more costly.

The City is of the opinion that its charges for Water Service do not exceed the costs that it reasonably bears in providing such service and therefore are not subject to the limits of Article XIII B. See the caption “SECURITY FOR THE BONDS—Rate Covenant” for a description of the City’s covenant to set rates and charges for the Water Service.

Proposition 218

General. An initiative measure entitled the “Proposition 218 – the Right to Vote on Taxes Act” (the “**Initiative**”) was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Articles XIII C and XIII D to the State Constitution. According to the “Title and Summary” of the Initiative prepared by the State Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIII D. Article XIII D defines the terms “fee” and “charge” to mean “any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIII D further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIII D requires that any agency which imposes or increases any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, because fees for water service and wastewater service are a “fee” or “charge” as defined in Article XIII D, the local government’s ability to increase such fees or charges may be limited by a majority protest.

In addition, Article XIII D includes a number of limitations that are applicable to existing fees and charges, including provisions to the effect that: (a) revenues that are derived from the fee or charge may not exceed the funds which are required to provide the property-related service; (b) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (c) the amount of a fee or charge that is imposed upon any parcel or person as an incident of property ownership may not exceed the proportional cost of the service attributable to the parcel; and (d) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was generally

believed that Article XIID did not apply to charges for water services that are “primarily based on the amount consumed” (i.e., metered water or wastewater rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The State Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the “**Bighorn Case**”), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The State Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218. The City complied with the notice, hearing and protest procedures in Article XIID, as further explained by the State Supreme Court in the *Bighorn Case*, with respect to the Water rate increases that were approved on January 8, 2020. See the captions “THE WATER SYSTEM—Water System Rates and Charges.”

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal. App. 4th 1493 (2015) (the “**SJC Case**”), upholding tiered water rates under the Initiative provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion included a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The City’s water rates, which are described under the captions “THE WATER SYSTEM—Water System Rates and Charges” include tiered rates based on usage. The City has reviewed the holding in the *SJC Case* and determined that the City’s water rates comply with the Initiative.

See the caption “LITIGATION—City—Water Rate Litigation” for a discussion of certain litigation challenging the City’s water rates under Article XIID.

Article XIIC. Article XIIC provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the State Supreme Court held in the *Bighorn Case* that the provisions of Article XIIC applied to rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations.

On August 3, 2020, the State Supreme Court issued an opinion in *Wilde v. City of Dunsmuir* (Cal. S. Ct. S252915) holding that the taxation exemption from the State Constitution’s referendum process applies to measures setting water rates, and that the Initiative does not subject water rates to challenge by referendum. The City does not believe that Article XIIC grants to the voters within the City the power (whether by initiative under Article XIIC or otherwise, or by referendum, which is not authorized under Article XIIC) to repeal or reduce rates and charges for the Water Service in a manner that would interfere with the contractual obligations of the City or the obligation of the City to maintain and operate the Water System. However, there can be no assurance as to the availability of particular remedies adequate to protect the Beneficial Owners of the Bonds. Remedies that are available to Beneficial Owners of the Bonds in the event of a default by the City are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the Bonds and the rights and remedies of the Bond Owners will be exercised through the procedures of DTC.

In addition to the specific limitations on remedies which are contained in the applicable documents themselves, the rights and obligations with respect to the Bonds, the Indenture and the Installment Purchase Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public

agencies in the State. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix C), will be similarly qualified.

Future Initiatives

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's revenues or ability to increase revenues.

CERTAIN RISKS TO BONDHOLDERS

The following information, in addition to the other matters that are described in this Official Statement, should be considered by prospective investors in evaluating the Bonds. However, the following does not purport to be comprehensive, definitive or an exhaustive listing of risks and other considerations that may be relevant to making an investment decision with respect to the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. If any risk factor materializes to a sufficient degree, it alone could delay or preclude payment of principal of or interest on the Bonds.

Limited Obligations

The obligation of the City to pay the Series 2020 Installment Payments is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to pay the Series 2020 Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Accuracy of Assumptions

General. To estimate the Net Revenues available to pay the Series 2020 Installment Payments, the City has made certain assumptions with regard to various matters, including but not limited to future development within the City and increases in revenues resulting therefrom, the rates and charges to be imposed in future years, the expenses associated with operating the Water System and the interest rate at which funds will be invested. The City believes these assumptions to be reasonable, but to the extent that any of such assumptions fail to materialize, the Net Revenues available to pay the Series 2020 Installment Payments will, in all likelihood, be less than those projected herein. See the caption "WATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage." The City may choose, however, to maintain compliance with the rate covenant set forth in the Installment Purchase Agreement in part by means of contributions from available reserves or resources, including the Rate Stabilization Fund. In such event, Net Revenues may generate amounts which are less than 125% of Debt Service in any given Fiscal Year. See the captions "SECURITY FOR THE BONDS—Rate Covenant" and "SECURITY FOR THE BONDS—Rate Stabilization Fund."

PFAS Treatment Facilities. As described under the caption "THE WATER SYSTEM—Water Quality—PFAS," testing of the City's groundwater sources in early 2020 revealed the presence of contaminants known as PFAS at levels above regulatory thresholds in two of the City's groundwater wells. As a result, the City voluntarily elected to stop groundwater production from such wells. The City expects to purchase additional imported water supplies from MWDOC to serve customer demand while such wells are out of service.

The City has entered into an agreement with OCWD pursuant to which OCWD will design and construct PFAS treatment facilities at OCWD's expense at the two City wells that have been shut down. The City expects such facilities to be operational within two years, at which time the City can resume production from the wells. However, the appropriate design for the facilities is still being studied and there can be no assurance as to the

ultimate type of facilities to be constructed or the timing of completion thereof. Although the City will be obligated to operate and maintain the PFAS treatment facilities for a period of up to 30 years, the City's agreement with OCWD enables the City to seek reimbursement for up to half of the operation and maintenance costs of the facilities at the rate of \$75 per acre foot of groundwater produced.

The projected operating results which are set forth under the caption "WATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" assume higher water supply costs for two years as a result of the purchase of relatively more expensive imported water to replace the supplies from the two wells which have been taken out of service, and additional Operation and Maintenance Costs to operate and maintain the new treatment facilities that are being constructed by OCWD after the two year construction period. Notwithstanding the foregoing, there can be no assurance that additional State regulations related to PFAS will not result in the imposition of additional costs on the Water System.

In the event that the PFAS treatment facilities are completed later than currently contemplated, operating costs of the PFAS treatment facilities are higher than currently contemplated, or additional State regulations relating to PFAS are adopted, Operation and Maintenance Costs of the Water System could be higher than projected herein, which could reduce the Net Revenues available to pay the Series 2020 Installment Payments.

System Demand

There can be no assurance that the demand for Water Service will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the rate covenant. See the caption "SECURITY FOR THE BONDS—Rate Covenant." Demand for Water Service could be reduced or may not occur as projected by the City as a result of reduced levels of development in the City's service area, hydrological conditions, conservation efforts, an economic downturn (including as a result of the COVID-19 outbreak that is discussed under the caption "THE CITY—COVID-19 Outbreak"), mandatory State conservation orders and other factors.

System Expenses

There can be no assurance that the City's expenses will be consistent with the descriptions in this Official Statement. Operation and Maintenance Costs may vary with the cost of imported water and the quality and amount of local supplies as well as treatment costs, regulatory compliance costs, labor costs (including costs related to pension and other post-employment benefits) and other factors. See the caption "—Accuracy of Assumptions—PFAS Treatment Facilities" for a discussion of certain material assumptions related to Operation and Maintenance Costs of the Water System in the next five years.

A significant portion of the City's water supply is purchased from MWD through MWDOC, and increases in such agencies' costs or changes in such agencies' operations over which the City has no control could impact the City's cost of water to supply its customers. See the caption "THE WATER SYSTEM—Water Supply." Increases in Operation and Maintenance Costs could require an increase in rates or charges in order to comply with the rate covenant. See the caption "SECURITY FOR THE BONDS—Rate Covenant."

Limited Recourse on Default

If the City defaults on its obligation to pay the Series 2020 Installment Payments, the Trustee, as assignee of the Authority, has the right to declare the total unpaid principal amount of the Series 2020 Installment Payments, together with the accrued interest thereon, to be immediately due and payable. However, in the event of a default and such acceleration, there can be no assurance that the City will have sufficient funds to pay such accelerated amounts from Net Revenues.

Rate-Setting Process under Proposition 218

Proposition 218, which added Articles XIIC and XIID to the State Constitution, affects the City's ability to maintain existing Water System rates and impose rate increases, and no assurance can be given that future proposals to increase Water System rates will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed Water System rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net Revenues in the amounts required by the Installment Purchase Agreement to pay the Series 2020 Installment Payments. The City believes that its current Water System rates approved by the City Council were effected in accordance with the public hearing and majority protest provisions of Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

Statutory and Regulatory Compliance

Laws and regulations governing treatment and delivery of water are enacted and promulgated by federal, State and local government agencies. Compliance with these laws and regulations is and will continue to be costly, and, as more stringent standards are developed, such costs will likely increase.

Claims against the Water System for failure to comply with applicable laws and regulations could be significant. Such claims may be payable from assets of the Water System and constitute Operation and Maintenance Costs or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for municipal water systems such as that operated by the City may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the City. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the City to generate Net Revenues in amounts that are sufficient to pay the Series 2020 Installment Payments.

Natural Disasters

The occurrence of any natural disaster in the City, including, without limitation, earthquake, wildfire, drought, high winds, landslide or flood, could have an adverse material impact on the economy within the City and the revenues available for the payment of the Bonds and result in substantial damage to and interference with the operations of the Water System.

Portions of the City's service area may be subject to unpredictable seismic activity. See the caption "THE CITY—Seismic Considerations." The Installment Purchase Agreement does not require the City to maintain earthquake insurance and the City does not currently maintain such insurance for Water System facilities other than the Public Works Municipal Service Center, where administrative functions of the Water System are carried out. The City maintains liability insurance for the Water System and property casualty insurance (for losses other than from seismic events) for certain portions of the Water System. See the caption "THE CITY—City Insurance." However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers. Furthermore, significant portions of the Water System, including underground pipelines, are not covered by property casualty insurance. Damage to such portions of the Water System as a result of natural disasters would result in uninsured losses to the City.

Limitations on Remedies

The ability of the City to comply with its covenants under the Installment Purchase Agreement and to generate Net Revenues in amounts that are sufficient to pay the Series 2020 Installment Payments may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND

CHARGES—Proposition 218.” Furthermore, the remedies that are available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

In addition, usual equity principles may limit the specific enforcement under State law of certain remedies, as may 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 and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium proceedings and other laws relating to or affecting creditors’ rights, or the exercise of powers by the federal or State government, if initiated, could subject the Beneficial 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 because the Water System serves an essential public purpose.

The opinion to be delivered by Bond Counsel concurrently with the issuance of the Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. See Appendix C. In the event that the City fails to comply with its covenants under the Installment Purchase Agreement or fails to pay the Series 2020 Installment Payments, which secure the payments of principal of and interest on the Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the Bonds.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Authority and the City have covenanted in the Indenture and the Installment Purchase Agreement, respectively, to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds thereunder. Interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such Bonds as a result of acts or omissions of the Authority or the City in violation of such covenants or other covenants in the Indenture or the Installment Purchase Agreement. The Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Indenture. See the caption “TAX EXEMPTION.”

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 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.

Parity Obligations

The Installment Purchase Agreement permits the City to enter into Parity Bonds and Contracts payable from Net Revenues on a parity with the Series 2020 Installment Payments, which secure the Bonds, subject to the terms and conditions set forth therein. See the caption “SECURITY FOR THE BONDS—Additional Parity Bonds and Contracts.” The entry into of additional Parity Bonds and Contracts could result in reduced Net Revenues available to pay the Series 2020 Installment Payments. The City has covenanted to maintain coverage of Debt Service as described under the caption “SECURITY FOR THE BONDS—Rate Covenant.”

Climate Change

The State has historically been susceptible to wildfires and hydrologic variability. As greenhouse gas emissions continue to accumulate in the atmosphere as a result of economic activity, climate change is expected to intensify, increasing the frequency, severity and timing of extreme weather events such as coastal storm surges, drought, wildfires, floods and heat waves, and raising sea levels. The future fiscal impact of climate change on the Water System is difficult to predict, but it could be significant and it could have a material adverse effect on the City's finances by requiring greater expenditures to counteract the effects of climate change or by changing the business and activities of Water System customers.

Cyber Security

Municipal agencies, like other business entities, face significant risks relating to the use and application of computer software and hardware. Recently, there have been significant cyber security incidents affecting municipal agencies, including a freeze affecting computer systems of the City of Atlanta, an attack on the City of Baltimore's 911 system, an attack on the Colorado Department of Transportation's computers and an attack that resulted in the temporary closure of the Port of Los Angeles' largest terminal.

The City employs a multi-level cyber protection scheme that includes firewalls, anti-virus software, anti-spam/malware software and an intrusion protection system. The City also contracts with a third party vendor to provide cyber security training for all City staff and conduct simulated phishing attacks. To date, the City has not experienced a major attack on its computer operating systems. However, there can be no assurance that the City's security and operational control measures will be successful in guarding against all cyber threats and attacks. The results of any attack on the City's computer systems could negatively impact the City's operations, and the costs related to such attacks could be substantial.

THE AUTHORITY

The Authority is a public entity created for the joint exercise of common powers pursuant to a Joint Exercise of Powers Agreement, dated June 22, 1993, as amended by Amendment No. 1 thereto dated March 28, 2006, by and among the City, the Successor Agency to the Garden Grove Agency for Community Development and the Garden Grove Sanitary District. The Authority is an autonomous entity that is separate from the City and SCWD. The powers and functions of the Authority are exercised by a seven-member Board consisting of the Mayor and members of the City Council of the City.

APPROVAL OF LEGAL PROCEEDINGS

The valid, legal and binding nature of the Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, acting as Bond Counsel. The form of such legal opinion is attached as Appendix C, and such legal opinion will be attached to each Bond. Certain matters will be passed upon for the Authority and the City by Woodruff Spradlin & Smart, Costa Mesa, California, as General Counsel and City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel, and for the Trustee by its counsel. The Underwriter is being represented by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California.

LITIGATION

City

General. At the time of delivery of and payment for the Bonds, the City will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City, threatened against the City affecting the existence of the City or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the

sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Installment Purchase Agreement and the Indenture, or that would have a material adverse effect on the City's ability to pay the Series 2020 Installment Payments, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Installment Purchase Agreement or any action of the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the Bonds or any action of the City contemplated by any of said documents, nor to the knowledge of the City, is there any basis therefor.

Water Rate Litigation. On February 19, 2020, a class action complaint and petition for writ of mandate (collectively, the "**Water Rate Complaint**") was filed in the matter of *Kessner et al. v. City of Santa Clara et al.* in the Superior Court of California, County of Santa Clara, on behalf of 81 customer classes (collectively "**Plaintiffs**"), challenging the rates of 82 public water suppliers, including the City. The Water Rate Complaint alleges that the named defendants and respondents (collectively "**Defendants**") unlawfully set water rates for retail customers that exceed the cost of service, in violation of Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" for a discussion of Proposition 218.

Plaintiffs are challenging Defendants' retail water rates on the ground that they allegedly subsidize water service provided for general governmental purposes, including "subsidized public fire hydrant service."

The City was served with the Water Rate Complaint in March 2020. On March 9, 2020, the Superior Court of California, County of Santa Clara, issued an Order deeming the case complex and staying discovery and responsive pleading deadlines. Pursuant to the March 9, 2020 Order, the parties may not file or serve responsive pleadings until later orders of the court.

Plaintiffs have also filed a motion to consolidate the Water Rate Complaint with two similar complaints filed by Plaintiffs' counsel against water agencies in northern California. All proceedings in the Water Rate Complaint are currently stayed pending a hearing on the motion to consolidate.

The City is unable to predict the outcome of this litigation or the timing of any resolution thereof. However, the City believes that its water rates were adopted in compliance with Proposition 218 and does not currently expect the Water Rate Complaint to have a material adverse effect on its ability to pay the Series 2020 Installment Payments.

The City notes that the State Legislature recently adopted Senate Bill 1386 ("**SB 1386**"), which awaits signature by the State Governor. SB 1386 would add provisions to the California Government Code establishing that the costs of water service chargeable to property owners properly include the cost of infrastructure, e.g., fire hydrants, which provide fire protection for nearby property. The signing of SB 1386 into law by the State Governor would likely assist the City's defense of the Water Rate Complaint.

Authority

At the time of delivery of and payment for the Bonds, the Authority will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority affecting the existence of the Authority or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Installment Purchase Agreement and the Indenture, or that would have a material adverse effect on the Authority's ability to pay the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Installment Purchase Agreement or any action of the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Authority or its authority with respect to the

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

TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the Authority, the City and others and is subject to the condition that the Authority and the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the City have covenanted to comply with all such requirements.

In the opinion of Bond Counsel, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable Bond. The amount of original issue discount that accrues to the Beneficial Owner of a Bond is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received with respect to the Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE

OR LOCAL TAX TREATMENT OF THE BONDS, INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE BONDS, STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the Authority and the City continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) on the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

Should interest (and original issue discount) on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix C.

CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Agreement, dated as of November 1, 2020 (the "**Continuing Disclosure Agreement**"), by and between the City and Applied Best Practices LLC, as dissemination agent (the "**Dissemination Agent**") for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than each March 31 following the end of the City's Fiscal Year (currently its Fiscal Year ends on June 30) (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City or the Dissemination Agent with EMMA. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is set forth in Appendix E. These covenants have been made in order to assist the Underwriter in complying with Section (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission.

[DISCLOSURE RE PRIOR COMPLIANCE TO COME].

As noted above, the City has engaged Applied Best Practices LLC as its Dissemination Agent in connection with future continuing disclosure reporting. In addition, the City adopted a debt management policy in February 2017 that includes procedures with respect to continuing disclosure compliance.

RATING

The Authority expects that S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), will assign the Bonds the rating of "___".

Future events, including the impacts of the COVID-19 pandemic that is described under the caption "THE CITY—COVID-19 Outbreak," could have an adverse impact on the rating of the Bonds, and there is no assurance that any credit rating that is given to the Bonds will be maintained for any period of time or that a rating may not be qualified, downgraded, lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant, nor can there be any assurance that the criteria required to achieve the rating on the Bonds will not change during the period that the Bonds remain outstanding. Any such qualification, downgrade, lowering or withdrawal of the rating may have an adverse effect on the market price of the Bonds. The rating reflects only the current views and current rating criteria of S&P (which views and criteria could change at any time), and an explanation of the significance of such rating may be obtained from S&P. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the City that is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

The City has covenanted in the Continuing Disclosure Agreement to file notices of any rating changes on the Bonds with EMMA. See the caption "CONTINUING DISCLOSURE" and Appendix E. Notwithstanding such covenant, information relating to a rating change on the Bonds may be publicly available from S&P prior to such information being provided to the City and prior to the date by which the City is obligated to file a notice of rating change. Purchasers of the Bonds are directed to S&P and its websites and official media outlets for the most current rating with respect to the Bonds after the initial issuance of the Bonds.

In providing a rating on the Bonds, S&P may have performed independent calculations of coverage ratios using its own internal formulas and methodology, which may not reflect the provisions of the Indenture or the Installment Purchase Agreement. The City makes no representations as to any such calculations, and such calculations should not be construed as a representation by the City as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of debt service or for any other purpose.

MUNICIPAL ADVISOR

The City has retained Fieldman, Rolapp & Associates, Inc., Irvine, California (the "**Municipal Advisor**") as its municipal advisor in connection with the sale of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained herein. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated, (the "**Underwriter**"), pursuant to a purchase agreement, dated the date hereof, by and among the Authority, the City and the Underwriter. The Underwriter will purchase the Bonds from the Authority at an aggregate purchase price of \$_____, representing the principal amount of the Bonds, plus/less \$_____ of net original issue premium/discount and less \$_____ of Underwriter's discount.

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

Bond Counsel and Disclosure Counsel represent the Authority and the City in connection with the issuance of the Bonds. From time to time Bond Counsel and Disclosure Counsel represent the Underwriter in connection with other financings and matters that are unrelated to the Bonds. Bond Counsel and Disclosure Counsel do not represent the Underwriter with respect to the issuance of the Bonds.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

MISCELLANEOUS

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents and reference is made to all such documents for full and complete statements of all matters of fact relating to the Bonds, the security for and the source for repayment for the Bonds and the rights and obligations of the owners thereof.

The information that is contained in this Official Statement has been compiled from official and other sources that are deemed to be reliable, and is believed to be correct as of its date, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter.

Any statements made in this Official Statement that involve matters of opinion, estimates or projections, 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 or projections will be realized. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City.

GARDEN GROVE PUBLIC FINANCING AUTHORITY

By: _____
Chair

CITY OF GARDEN GROVE

By: _____
City Manager

APPENDIX A
CITY FINANCIAL STATEMENTS

APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INSTALLMENT PURCHASE AGREEMENT AND THE INDENTURE

The following is a summary of certain provisions of the Installment Purchase Agreement and the Indenture that are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the applicable document for a full and complete statement of the provisions thereof.

[TO COME FROM BOND COUNSEL]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

November ___, 2020

Garden Grove Public Financing Authority
11222 Acacia Parkway
Garden Grove, California 92840

Re: \$_____ Garden Grove Public Financing Authority Water Revenue Bonds, Series 2020A

Members of the Board of Directors:

We have acted as Bond Counsel to the Garden Grove Public Financing Authority (the “Authority”) in connection with the issuance of \$_____ aggregate principal amount of Garden Grove Public Financing Authority Water Revenue Bonds, Series 2020A (the “Bonds”). The Bonds have been issued by the Authority pursuant to the terms of the Indenture of Trust, dated as of November 1, 2020 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”).

The Bonds are limited obligations of the Authority payable solely from payments to be made by the City of Garden Grove (the “City”) to the Authority pursuant to an Installment Purchase Agreement, dated as of November 1, 2020 (the “Installment Purchase Agreement”), by and between the City and the Authority, and from certain funds and accounts established under the Indenture.

In connection with our representation, we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings of the Authority show lawful authority for the issuance and sale by the Authority of the Bonds under the laws of the State of California (the “State”) now in force, and the Indenture has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the Bonds and the Indenture are valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

2. The obligation of the Authority to make the payments of principal and interest on the Bonds from Authority Revenues (as such term is defined in the Indenture) is an enforceable obligation of the Authority and does not constitute an indebtedness of the Authority in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond Owner's basis in the applicable Bond. The amount of original issue discount that accrues to the Bond Owner is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations and is exempt from State personal income tax.

6. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions that are expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the City and the Authority and are subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City and the Authority have covenanted to comply with all such requirements.

The opinions that are expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their issuance. The Indenture, the Installment Purchase Agreement and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions that are expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture, the Installment Purchase Agreement and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX D

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority, the City and the Underwriter believe to be reliable, but none of the Authority, the City or the Underwriter takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

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 bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

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.

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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 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.

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.

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).

Redemption proceeds, distributions, and dividend 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. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account. 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, physical certificates are required to be printed and delivered.

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, bonds will be printed and delivered to DTC.

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 E

FORM OF CONTINUING DISCLOSURE AGREEMENT

Upon the issuance of the Bonds, the City proposes to enter into a Continuing Disclosure Agreement in substantially the following form:

This Continuing Disclosure Agreement, dated as of November 1, 2020 (the “**Disclosure Agreement**”) is executed and delivered by the City of Garden Grove (the “**Obligor**”) and Applied Best Practices LLC as dissemination agent (the “**Dissemination Agent**”), in connection with the issuance of the Garden Grove Public Financing Authority Water Revenue Bonds, Series 2020A (the “**Bonds**”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2020 (the “**Bond Indenture**”), by and between the Garden Grove Public Financing Authority and U.S. Bank National Association, as trustee. The Obligor and the Dissemination Agent covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Obligor and the Dissemination Agent, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Bond 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 report provided by the Obligor pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Beneficial Owner**” shall mean any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 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 City Manager or the Director of Finance of the Obligor, or the designee thereof, or such other officer or employee as the Obligor shall designate in writing to the Dissemination Agent from time to time.

“**Dissemination Agent**” shall mean, initially, Applied Best Practices LLC, or any successor Dissemination Agent designated in writing by the Obligor and which has filed with the then current Dissemination Agent a written acceptance of such designation.

“**Financial Obligation**” shall mean 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) or (B). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

“**Fiscal Year**” shall mean the period from July 1 to June 30, or any other period selected by the Obligor as its fiscal year.

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

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

“**Official Statement**” shall mean the Official Statement relating to the Bonds, dated October __, 2020.

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

“**State**” shall mean the State of California.

“**Underwriter**” shall mean the original underwriters of the Bonds that are required to comply with the Rule in connection with the offering of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The Obligor shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, upon delivery of the Annual Report to the Dissemination Agent (if other than the Obligor), not later than March 31 of each year, commencing March 31, 2021, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement (provided that the first Annual Report may consist solely of the Official Statement). 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 the audited financial statements of the Obligor may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Obligor’s Fiscal Year changes, it shall give notice of such change to the Dissemination Agent and the Obligor shall, or shall cause the Dissemination Agent, by written direction to such Dissemination Agent, to give notice of such change in the same manner as for a Listed Event under Section 5(a).

(b) Not later than fifteen (15) business days prior to each March 31, the Obligor shall provide the Annual Report to the Dissemination Agent (if other than the Obligor). The Obligor shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Obligor and shall have no duty or obligation to review such Annual Report. If: (i) the Obligor is acting as Dissemination Agent and an Annual Report has not been provided to the MSRB by the date required in subsection (a); or (ii) if the Dissemination Agent is other than the Obligor and is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), then the Obligor or the Dissemination Agent (if other than the Obligor), as applicable, shall send a notice to the MSRB in a timely manner in substantially the form prescribed by the MSRB.

(c) The Dissemination Agent shall:

(i) determine each year prior to March 31 the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Obligor, promptly after receipt of the Annual Report, file a report with the Obligor certifying that the Annual Report has been filed with the MSRB pursuant to this Disclosure Agreement, and stating, to the extent that it can confirm such filing of the Annual Report, the date that it was filed.

SECTION 4. Content of Annual Reports. The Obligor’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Obligor 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 Obligor’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 come available.

(b) To the extent not contained in the audited financial statements filed pursuant to subsection (a):

(i) The principal amount of Bonds outstanding as of the December 31 preceding the Annual Report Date.

(ii) An update of the information for the prior Fiscal Year in substantially the form set forth in the following tables in the Official Statement under the caption “THE WATER SYSTEM”:

1. Historical Water Sources in Acre Feet;
2. Historical Water Deliveries in Acre Feet;
3. Historical Water System Connections;
4. Historical Water System Sales Revenues; and
5. Ten Largest Water System Customers.

(iii) A description of changes to Water System rates and charges since the date of the prior Annual Report, or, for the first Annual Report, since the date of the Official Statement.

(iv) An update of the information for the prior Fiscal Year in substantially the form set forth in the following table in the Official Statement under the caption “WATER SYSTEM FINANCIAL INFORMATION”:

1. Historical Water System Operating Results.

In addition to any of the information expressly required to be provided under paragraphs (i) through (iv) of this Section, the Obligor shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements for debt issues of the Obligor or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Obligor shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Obligor shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (iv) Substitution of credit or liquidity providers, or their failure to perform.
- (v) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB).
- (vi) Tender offers.
- (vii) Defeasances.

(viii) Rating changes.

(ix) Bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(x) Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the Obligor, any of which reflect financial difficulties.

(b) Pursuant to the provisions of this Section 5, the Obligor shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not more than ten (10) Business Days after occurrence:

(i) Unless described in Section 5(a)(v), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds.

(ii) Modifications to the rights of Bondholders.

(iii) Optional, unscheduled or contingent Bond calls.

(iv) Release, substitution or sale of property securing repayment of the Bonds.

(v) Non-payment related defaults.

(vi) The consummation of a merger, consolidation or acquisition involving the Obligor or the sale of all or substantially all of the assets of the Obligor, 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.

(vii) Appointment of a successor or additional trustee or the change of the name of a trustee.

(viii) Incurrence of a Financial Obligation of the Obligor, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligor, any of which affect security holders.

(c) If the Obligor determines that knowledge of the occurrence of a Listed Event under subsection (b) would be material under applicable federal securities laws, and if the Dissemination Agent is other than the Obligor, the Obligor shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB in a timely manner not more than ten (10) Business Days after the event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(vii) and (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Bond Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (c) prior to the occurrence of such Listed Event.

(d) If the Obligor determines that a Listed Event under subsection (b) would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Obligor, the Obligor shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) The Obligor hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Obligor and, if the Dissemination Agent is other than the Obligor, the Dissemination Agent shall not be responsible for determining whether the Obligor's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Obligor and the Dissemination Agent 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 Obligor shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The Obligor 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. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the Obligor pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days' written notice to the Obligor and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Obligor and shall have no duty to review any information provided to it by the Obligor. The Dissemination Agent shall have no duty to prepare any information report, nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Obligor in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligor may amend this Disclosure Agreement, 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, and provided further that the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Obligor 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 Obligor. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (a) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a); and (b) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligor 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 Obligor 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 Obligor shall have no obligation under this Disclosure Agreement to update such information or to include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure by the Obligor or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner 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 Obligor 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 Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligor or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

No Owner or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Obligor satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Obligor shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Obligor agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Obligor for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Obligor, the Owners, or any other party. The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under the Bond Indenture. The obligations of the Obligor under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given to the Dissemination Agent (if other than the Obligor) and to the Obligor as follows:

Disclosure Representative: City of Garden Grove
City Manager
11222 Acacia Parkway
Garden Grove, California 92840

Dissemination Agent: Applied Best Practices LLC
19900 MacArthur Blvd #1100
Irvine, California 92612

SECTION 13. Beneficiaries. This Disclosure Agreement inures solely to the benefit of the Obligor, the Dissemination Agent, the Underwriter and the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the Obligor to the undertaking herein provided.

CITY OF GARDEN GROVE

By: _____
Its: City Manager

FIELDMAN, ROLAPP & ASSOCIATES, INC., DBA
APPLIED BEST PRACTICES LLC, as Dissemination Agent

By: _____
Its: Authorized Officer