

NEW ISSUE - FULL BOOK-ENTRY

RATING: S&P Global Ratings: “__”
See “RATING” herein

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 and corporations. 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 MATTERS.”

\$ _____*
GARDEN GROVE SANITARY DISTRICT
Revenue Refunding Bonds, Series 2017

Dated: Date of Delivery

Due: June 15, as shown in the inside cover

Authority for Issuance. The bonds captioned above (the “Bonds”) are being issued by the Garden Grove Sanitary District (the “District”) under an Indenture of Trust dated as of March 1, 2017 (the “Indenture”) between the District and U.S. Bank National Association, as trustee for the Bonds (the “Trustee”), a resolution adopted by the Board of Directors of the District on February 14, 2017, and the provisions of Sections 53580 et seq. of the California Government Code.

Use of Proceeds. The Bonds are being issued to provide funds to (i) refinance the District’s obligations to make installment payments (the “2006 Installment Payments”) under an Installment Purchase Agreement dated as of April 1, 2006 (the “2006 Installment Purchase Agreement”), between the District and the Garden Grove Public Financing Authority and thereby prepay the District’s outstanding Revenue Certificates of Participation (Sewer Services Capital Improvement Program), Series 2006 (the “2006 Certificates”) which evidence and represent fractional undivided interests of the owners thereof in the 2006 Installment Payments, and (ii) pay the costs of issuing the Bonds. See “FINANCING PLAN.”

Security for the Bonds. The Bonds are payable from and secured by a pledge of the Revenues under the Indenture, defined generally as gross revenues received from the District’s sewer collection and transmission system (the “Sewer System”). The Bonds are also secured by all moneys on deposit in the funds and accounts established under the Indenture. See “SECURITY FOR THE BONDS.”

Future Parity Debt. The District is authorized under the Indenture to issue or incur other contracts or indebtedness payable from Net Revenues secured by and payable from Net Revenues on a parity with the Bonds upon the satisfaction of certain conditions as described in this Official Statement.

Bond Terms; Book-Entry Only. The Bonds will bear interest at the rates shown on the inside cover, payable semiannually on June 15 and December 15 of each year, commencing on June 15, 2017 (each, an “Interest Payment Date”), and will be issued in fully registered form without coupons in integral multiples of \$5,000. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS – General Provisions.”

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

NEITHER THE BONDS NOR THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF OR INTEREST THEREON CONSTITUTE A DEBT OR A LIABILITY OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE DISTRICT. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE DISTRICT DOES NOT HAVE THE POWER TO LEVY TAXES FOR THE PAYMENT OF THE BONDS.

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

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will also be passed upon for the District by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Nixon Peabody LLP, Los Angeles, California, will pass upon certain legal matters for the Underwriter. Certain legal matters will be passed upon for the District by the City Attorney. It is anticipated that the Bonds will be delivered in definitive form through DTC on or about March __, 2017.

[Underwriter’s Logo]

The date of this Official Statement is: _____, 2017

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a 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 prior to registration or qualification under the securities

MATURITY SCHEDULE*

\$ _____
GARDEN GROVE SANITARY DISTRICT
Revenue Refunding Bonds, Series 2017
Base CUSIP†: 365275)

Maturity (June 15)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
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\$ _____ % Term Bonds Due June 15, 20__, Yield __%,
Price: _____, CUSIP†: _____

* Preliminary; subject to change.

† Copyright 2017, American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by Standard & Poor's Capital IQ, and are provided for convenience of reference only. Neither the District nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

GARDEN GROVE SANITARY DISTRICT

CITY COUNCIL AND DISTRICT BOARD OF DIRECTORS

Kris Beard, *Mayor and President*
John R. O'Neill, *Mayor Pro Tem and Vice President*
Steven R. Jones, *Councilmember and Board Member*
Phat Bui, *Councilmember and Board Member*
Thu-Ha Nguyen, *Councilmember and Board Member*
Stephanie Klopfenstein, *Councilmember and Board Member*
Kim B. Nguyen, *Councilmember and Board Member*

CITY OFFICIALS

Scott C. Stiles, *City Manager/General Manager*
Maria Stripe, *Deputy City Manager*
Omar Sandoval, *City Attorney/General Counsel*
Kingsley Okereke, *Assistant City Manager/Finance Director*
William E. Murray, *Director of Public Works*

PROFESSIONAL SERVICES

BOND COUNSEL

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

DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

VERIFICATION AGENT

Grant Thornton
Minneapolis, Minnesota

TRUSTEE

U.S. Bank National Association
Los Angeles, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

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

Website. The City of Garden Grove maintains a website. However, the information maintained on the website 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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OFFICIAL STATEMENT

\$ _____ *

GARDEN GROVE SANITARY DISTRICT
(Orange County, California)
Revenue Refunding Bonds, Series 2017

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Authority for Issuance. The bonds captioned above (the “**Bonds**”) are authorized pursuant to the provisions of Sections 53580 et seq. of the California Government Code, a resolution adopted by the Board of Directors of the Garden Grove Sanitary District (the “**District**”) on February 14, 2017 (the “**Authorizing Resolution**”), and an Indenture of Trust (the “**Indenture**”) dated as of March 1, 2017, between the District and U.S. Bank National Association, as trustee (the “**Trustee**”). All capitalized terms used herein and not otherwise defined have the respective meanings given such terms in Appendix A or otherwise in the Indenture.

Form of Bonds. The Bonds will be dated their date of delivery and will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. See “THE BONDS – General Provisions.” When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York (“**DTC**”), or its nominee. DTC will act as securities depository for the Bonds. Individual purchases of Bonds will be made in book-entry form only in the principal amount of \$5,000 each or any integral multiple thereof. Purchasers of the Bonds will not receive certificates representing the Bonds purchased. See “THE BONDS – Book Entry Only System” and “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Purpose of the Bonds. The Bonds are being issued to provide funds to (i) refinance the District’s obligations to make installment payments (the “**2006 Installment Payments**”) under an Installment Purchase Agreement dated as April 1, 2006 (the “**2006 Installment Purchase Agreement**”), between the District and the Garden Grove Public Financing Authority, and thereby prepay the District’s outstanding Certificates of Participation (Sewer Services Capital Improvement Program) Series 2006 (the “**2006 Certificates**”) which evidence and represent the 2006 Installment Payments and (ii) pay the costs of issuing the Bonds. See “FINANCING PLAN.”

* Preliminary; subject to change.

Pledge of Sewer System Revenues. The Bonds are payable from and secured by a first pledge of and lien on “**Revenues**” received from the operation of the District’s existing sewer system, comprising the entire sewer collection and transmission system (and treatment and disposal service, if any), of the District, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the District for the collection of wastewater from residents of the District and adjacent areas and transmission to wastewater disposal service providers, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the District (the “**Sewer System**”). The term “**Revenues**” is generally to include means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Sewer System. See “SECURITY FOR THE BONDS – Pledge of Revenues.”

Rate Covenants. The District covenants in the Indenture to fix, prescribe, revise and collect charges for the Sewer System during each Fiscal Year that are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year (a) Net Revenues (not including amounts, if any, transferred from the Rate Stabilization Fund in an amount in excess of 15% of Debt Service for such Fiscal Year) which are at least equal to 115% of Debt Service for such Fiscal Year, and (b) Revenues (not including amounts, if any, transferred from the Rate Stabilization Fund) which are at least equal to 115% of Operation and Maintenance Costs for such Fiscal Year. See “SECURITY FOR THE BONDS – Rate Covenants.”

Issuance of Additional Obligations. The District may issue or incur additional contracts and bonds which are secured by a pledge of Revenues of the Sewer System on a parity with the Bonds, provided that the conditions set forth in the Indenture are met. See “SECURITY FOR THE BONDS – Additional Indebtedness.”

Payment. Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside cover page at the principal corporate trust office of the Trustee. Interest on the Bonds will be paid by check or draft of the Trustee mailed by first class mail to the person entitled thereto. See “THE BONDS – General Provisions.” Initially, interest on and principal and premium, if any, of the Bonds will be payable when due by wire of the Trustee to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants, which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See “THE BONDS – Book-Entry Only System” and “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Redemption. The Bonds are subject to optional and mandatory sinking fund redemption prior to their stated maturity dates. See “THE BONDS – Redemption of the Bonds.”

Risks of Investment. For a discussion of some of the risks associated with the purchase of the Bonds, see “BOND OWNERS’ RISKS.”

Neither the Bonds nor the obligation to pay principal of or interest thereon constitutes a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional limitation on indebtedness, or a pledge of the full faith and credit of the District. The Bonds are secured solely by the pledge of Revenues and certain funds held under the Indenture.

FINANCING PLAN

The Refunding Plan

A portion of the proceeds of the Bonds will be used to prepay the 2006 Installment Payments and thereby prepay and defease the 2006 Certificates. Under the 2006 Installment Purchase Agreement and the Trust Agreement authorizing the 2006 Certificates, the District has the right to prepay the 2006 Installment Payments and the 2006 Certificates on any date on or after June 15, 2016, at a prepayment price equal to 100% of the principal amount to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Proceeds of the Bonds, together with amounts held in the Reserve Fund which has been established for the 2006 Certificates and other available funds, will be deposited into an escrow account which is held by U.S. Bank National Association, as trustee for the 2006 Certificates (the "**Prior Trustee**"), to be held for the purpose of prepaying the 2006 Installment Payments and the 2006 Certificates in full on a date which is expected to be within two business days following the issuance of the Bonds. Pending application of such proceeds and other amounts to prepay the 2006 Installment Payments and the 2006 Certificates, amounts held by the Prior Trustee will held in cash, uninvested. The sufficiency of such proceeds and other amounts will be verified by Grant Thornton, Minneapolis, Minnesota (the "**Verification Agent**"), to be sufficient to pay the prepayment price of all of the outstanding 2006 Certificates and the related 2006 Installment Payments. Assuming the accuracy of the Verification Agent's computations, as a result of the deposit and application of funds as provided in the escrow account, all of the outstanding 2006 Certificates and the related 2006 Installment Payments will be defeased and all obligations thereunder discharged. See "VERIFICATION REPORT" herein.

The amounts held by the Prior Trustee for payment of the 2006 Installment Payments and the 2006 Certificates are pledged solely to the prepayment thereof, and are not available for the payment of debt service on the Bonds.

Estimated Sources and Uses of Funds

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

Sources:

Principal Amount of Bonds	\$
Less: Underwriter's Discount	
TOTAL SOURCES	\$

Uses:

Prepayment of 2006 Installment Payments	\$
Deposit to Costs of Issuance Fund ⁽¹⁾	
TOTAL USES	\$

⁽¹⁾ Costs of Issuance include legal fees, printing costs, rating agency fees and other miscellaneous expenses.

DEBT SERVICE SCHEDULE

The annual debt service on the Bonds is presented below, assuming no optional redemption thereof prior to maturity, if applicable.

Bond Year Ending <u>June 15</u>	The Bonds <u>Principal</u>	The Bonds <u>Interest</u>	The Bonds Annual <u>Debt Service</u>	Total Annual <u>Debt Service</u>
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
Totals				

THE BONDS

Authority for Issuance

The Bonds are authorized pursuant to the provisions of Sections 53580 et seq. of the California Government Code, a resolution adopted by the Board of Directors of the District on February 14, 2017, and the Indenture.

General Provisions

The Bonds will be issued in the aggregate principal amount of \$_____. The Bonds will be dated as of the date of initial issuance thereof (the "**Issuance Date**"), will bear interest from such date at the rates per annum set forth on the inside front cover page hereof, payable on June 15, 2017, and each June 15 and December 15 thereafter (each, an "**Interest Payment Date**"), and will mature on the dates set forth on the inside cover page hereof. Interest on the Bonds will be computed on the basis of a 360 day year composed of twelve 30 day months.

The Bonds will be issued 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, in denominations of \$5,000 or any integral multiple thereof. See the caption "**—Book Entry Only System**" below and Appendix F.

In the event that the book entry only system described below is discontinued, the principal of and redemption premium (if any) on the Bonds are 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 (the "**Office of the Trustee**"). Interest on the Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the "**Registration Books**") as the Owner thereof as of the close of business on the first calendar day of the month in which such Interest Payment Date occurs (the "**Record Date**"), such interest to be paid by check of the Trustee, sent by first class mail on the applicable Interest Payment Date to the Owner at such Owner's address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of Bonds may, at such Owner's option, be paid by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest and premium, if any, on the Bonds will be payable in lawful money of the United States.

Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before June 1, 2017, in which event it will bear interest from the Issuance Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Transfers and Exchanges Upon Termination of Book Entry Only System

In the event that the book entry system described under the caption “—Book Entry Only System” is abandoned, 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 such person’s 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 or Bonds are surrendered for transfer, the District 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.

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 and 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 of the Bonds

Optional Redemption. The Bonds with stated maturities on or after June 15, 20__, are subject to redemption prior to their respective stated maturities, as a whole or in part, on June 15, 20__, or any date thereafter, as directed by the District in a Written 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 being for the convenience of the Trustee) prior to the redemption date, and by lot within each maturity in integral multiples of \$5,000, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date, without premium.

Mandatory Sinking Fund Redemption. The Series Bonds maturing on June 15, 20_ (the “**Term Bonds**”), are subject to mandatory sinking fund redemption on June 15 of each year in accordance with the schedule set forth below. The Term Bonds so called for mandatory sinking fund redemption shall be redeemed in the sinking fund payments amounts and on the dates set forth below, without premium.

\$ _____ Term Bonds Maturing June 15, 20_

Redemption Date
(June 15)

Sinking Fund
Redemption

If any such Term Bonds are redeemed pursuant to optional redemption as described above, the total amount of all future sinking fund payments with respect to such Term Bonds shall be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of \$5,000 principal amount (or on such other basis as the District may determine) as set forth in written notice given by the District to the Trustee.

Notice of Redemption

Notice of redemption will be mailed by first class mail at least 20 days but not more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services.

Each notice of redemption will: (a) state the date of notice, the redemption date, the place or places of redemption and the redemption price; and (b) designate the maturities, CUSIP numbers, if any, and, if less than all Bonds of any such maturity are to be redeemed, the serial numbers of the Bonds of such maturity to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, have been called for redemption 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 designated for the redemption 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 District, for and on behalf of the District.

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption is 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.

Book Entry Only System

One fully-registered Bond of each maturity will be issued in the principal amount of the Bonds of such maturity. Such Bond will be registered in the name of Cede & Co. and will be deposited with DTC.

The District 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. See the caption “—Transfers and Exchanges Upon Termination of Book Entry Only System.”

The District cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the Bonds received by DTC or its Nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners (as such term is defined in Appendix F), 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 F for additional information concerning DTC.

SECURITY FOR THE BONDS

The District does not have the power to levy taxes for the payment of the principal of and interest on the Bonds. The Owners of the Bonds may not compel the forfeiture of any property of the District. The principal of and interest on the Bonds are not a debt of the District, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Revenues of the Sewer System.

Pledge of Revenues

All of the Revenues, all amounts held in the Revenue Fund established under the Indenture, all amounts transferred from the Rate Stabilization Fund (if established) to the Revenue Fund pursuant to the Indenture, and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established under the Indenture (subject to certain exceptions) are 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. The Revenues may not be used for any other purpose while the Bonds remain Outstanding; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Indenture. The foregoing pledge, together with the pledge created by all other Contracts and Bonds, constitutes a first lien on and security interest in Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted in the Indenture, the Revenue Fund and other funds and accounts created under the Indenture for the payment of the principal of and interest, and the premium, if any, on the Bonds and all Contracts and Debt Service on Bonds in accordance with the terms of the Indenture. Such pledge 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 District, irrespective of whether such parties have notice of the Indenture.

Revenue Fund

In order to carry out and effectuate the pledge and lien contained in the Indenture, the District agrees and covenants that all Revenues will be received by the District in trust and deposited when and as received in the Revenue Fund, which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as the Bonds and any Contracts or Debt Service on Bonds remain unpaid. Moneys in the Revenue Fund will be used and applied by the District as provided in the Indenture. All moneys in the Revenue Fund will be held in trust and applied, used and withdrawn for the purposes set forth in the Indenture.

The District will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Revenue Fund will be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority:

- (a) Interest and Principal Payments. Not later than the fifth Business Day prior to each Interest Payment Date, the District will, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund or the Redemption Fund the payments of interest and principal or mandatory

sinking fund payments, as applicable, on the Bonds due and payable on such Interest Payment Date. The District will also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the respective 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 any Bond or Contract.

- (b) Reserve Funds. On or before each Interest Payment Date, the District will, from the 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 such reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement with respect thereto.
- (c) Surplus. Moneys on deposit in the Revenue Fund on any date when the District reasonably expects that such moneys will not be needed for the payment of Operation and Maintenance Costs or any of the purposes described in clauses (a) or (b) may be expended by the District at any time for any purpose permitted by law or deposited in the Rate Stabilization Fund, if established.

All moneys held by the District in the Revenue Fund may be invested in Permitted Investments, and the investment earnings thereon will remain on deposit in such fund, except as otherwise provided in the Indenture.

Allocation of Revenues

Pursuant to the Indenture there is established with the Trustee the Payment Fund, which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the Bonds received by the Trustee as described above will be promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required by the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All payments of interest and principal on the Bonds deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will establish and hold an Interest Account and a Principal Account within the Payment Fund.

The Trustee will transfer from the 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 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 fifth Business Day preceding each Interest Payment Date, 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. No deposit needs to be made into the Interest Account if there is in such fund an amount sufficient to pay the interest becoming due and payable on such date on all Bonds then Outstanding.

- (b) Not later than the fifth Business Day preceding each date on which the principal of the Bonds becomes 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. No deposit needs to be made into the Principal Account if there is in such fund moneys sufficient to pay the principal becoming due and payable on such date on all Bonds then Outstanding.

Application of Interest Account. 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).

Application of Principal Account. 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, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such Bonds, upon written direction of the District, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Application of Redemption Fund. All amounts in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the redemption price of the Bonds to be redeemed on any redemption Date in accordance with the Indenture; provided, however, that at any time prior to selection for redemption of any such Bonds, upon written direction of the District, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Rate Covenants

In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund (as described under the caption “—Rate Stabilization Fund”) on the first day of such Fiscal Year is less than the Debt Service on the Bonds payable in such Fiscal Year, to the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each such Fiscal Year, rates and charges for the Sewer Service provided by the Sewer System that are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (which, when calculated for purposes of this subsection, do not include amounts transferred from the Rate Stabilization Fund that are in excess of 15% of Debt Service for such Fiscal Year) equal to 115% 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 Debt Service on the Bonds payable in such Fiscal Year, to the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each such Fiscal Year, rates and charges for the Sewer Service provided by the Sewer System that are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Revenues (which, when calculated for purposes of this subsection, do not include amounts transferred from the Rate Stabilization Fund) equal to 115% of Operation and Maintenance Costs for such Fiscal Year.

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

Additional Indebtedness

Pursuant to the Indenture, the District may at any time execute any Contract (each, a “**Contract**” and collectively, “**Contracts**”) or issue any additional notes or bonds (collectively, “**Additional Bonds**”), as the case may be, payable from Net Revenues on a parity with the Bonds, provided that:

- (a) The Net Revenues (which, when calculated for purposes of this subsection, do not include amounts transferred from the Rate Stabilization Fund to the Revenue Fund that are in excess of 15% of Debt Service for such Fiscal Year) for the most recent audited Fiscal Year preceding the date of adoption by the District’s Board of Directors of the resolution authorizing the issuance of such Additional Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the District, produce a sum equal to at least 115% of the Debt Service for such Fiscal Year; and

- (b) The Net Revenues (which, when calculated for purposes of this subsection, do not include amounts transferred from the Rate Stabilization Fund to the Revenue Fund that are in excess of 15% of Debt Service for such Fiscal Year) for the most recent audited Fiscal Year preceding the date of adoption by the District’s Board of Directors of the resolution authorizing the issuance of such Additional 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 Fiscal Year to increases or decreases in rates and charges for the Sewer Service approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the District, produce a sum equal to at least 115% of the Debt Service for such Fiscal Year, plus the Debt Service which would have accrued on any Contracts executed or Additional Bonds issued since the end of such Fiscal Year, assuming that such Contracts had been executed or such Additional Bonds had been issued at the beginning of such Fiscal Year, plus the Debt Service which would have accrued had such proposed additional Contract been executed.

Notwithstanding the foregoing, Additional Bonds or Contracts may be issued or incurred to refund the Bonds or other outstanding Additional Bonds or Contracts if, after giving effect to the application of the proceeds thereof, total Debt Service will not be increased in any Fiscal Year in which the Bonds and such Additional Bonds or Contracts (outstanding on the date of issuance or incurrence of such refunding Bonds or Contracts, but excluding such refunding Bonds or Contracts) not being refunded are outstanding.

Nothing contained in the Indenture limits the issuance of any obligations payable from Net Revenues on a subordinate basis to all outstanding Bonds, Additional Bonds and Contracts.

Rate Stabilization Fund

The District may maintain a special fund designated as the "Rate Stabilization Fund," which fund if established, the District has agreed and covenanted to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. Money transferred by the District from the Revenue Fund to the Rate Stabilization Fund in accordance with the Indenture will be held in the Rate Stabilization Fund and applied in accordance with the Indenture.

The District may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Revenue Fund to be applied to the payment of principal of and interest on the Bonds or, in the event that all or a portion of the Bonds are discharged, transfer all or any portion of such amounts for application in accordance with the Indenture. Any such amounts transferred from the Rate Stabilization Fund to the Revenue Fund in accordance with the Indenture constitute pledged Revenues.

Insurance; Reconstruction, Repair and Replacement

Casualty Events. The District will procure and maintain, or cause to be procured and maintained on its behalf, insurance on certain portions of the Sewer System with responsible insurers in such amounts and against such risks (including damage to or destruction of the Sewer System) as are typically covered in connection with facilities similar to the Sewer System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Sewer System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Sewer System. The District will begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same are completed and the Sewer System is free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Sewer System, and/or the cost of the construction of additions, betterments, extensions or improvements to the Sewer System, then the excess Net Proceeds will be applied to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts other than the Bonds in accordance with the indenture pursuant to which such Bonds were issued or with the applicable Contract, or to other District purposes permitted by law. If such Net Proceeds are sufficient to enable the District to retire the entire obligation evidenced

by the Bonds prior to the final due date of the Bonds, as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Sewer System, and/or not to construct other additions, betterments, extensions or improvements to the Sewer System; and thereupon such Net Proceeds will be applied to the retirement of such Bonds and Contracts, or to other District purposes permitted by law.

The District will procure and maintain such other insurance, or cause to be procured and maintained on its behalf, as it deems advisable or necessary to protect its interests and the interests of the Bond Owners, which insurance affords protection in such amounts and against such risks as are usually covered in connection with municipal Sewer Systems similar to the Sewer System.

Any insurance required to be maintained by the District under the Indenture may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with Sewer Systems similar to the Sewer System and is, in the opinion of an accredited actuary, actuarially sound.

Eminent Domain Events. If all or any part of the Sewer System is taken by eminent domain proceedings, the Net Proceeds thereof will be applied as follows:

- (a) If: (1) the District files with the Trustee a certificate showing: (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings; (ii) a general description of the additions, betterments, extensions or improvements to the Sewer System proposed to be acquired and constructed by the District from such Net Proceeds; and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements; and (2) the District, on the basis of such certificate filed with the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations under the Indenture will not be substantially impaired (which determination will be final and conclusive), then the District will promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate, and such Net Proceeds will be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose will be deposited in the Revenue Fund.
- (b) If the foregoing conditions are not met, then such Net Proceeds will be applied by the District to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in accordance with the indenture pursuant to which such Bonds were issued or with the applicable Contract, or to other District purposes permitted by law.

THE SEWER SYSTEM

History and General Description of the Sewer System

The Garden Grove Sanitary District was originally formed in 1924 as a special district operating under the authority of the State of California, to provide wastewater service to the then-unincorporated area of Orange County known as Garden Grove. As properties from the District's service area transitioned from rural agricultural to residential uses, these properties annexed to the District for sewer service. As a result, the District's service area expanded to cover most of the areas within the corporate boundaries of the Garden Grove Sanitary District, as well as portions of the cities of Stanton, Anaheim, Orange, Santa Ana, Westminster, Fountain Valley and several unincorporated Orange County areas. Midway City Sanitary District provided wastewater service to the remaining areas within the current boundaries of the District.

By 1993, the areas within the cities of Anaheim, Orange and Santa Ana were detached from the District. In order to provide more efficient service, the District initiated the dissolution of the Garden Grove Sanitary District in 1993. The Orange County Local Agency Formation Commission revised the boundaries of the District and reorganized it as a subsidiary district of the City on May 31, 1997. The City Council serves as the ex-officio board of directors of the District, and the City provides staffing for the District administration. Even with the reorganization, wastewater from several areas within the Cities of Anaheim, Orange, Stanton, Westminster, and Fountain Valley continues to drain through the District's system, before reaching Orange County Sanitation District facilities. Wastewater from several areas within the District's boundaries flows through the collection systems of the Cities of Anaheim, Santa Ana, Fountain Valley, and Midway City Sanitary District.

Service Area

The current service area of the District consists of all lands within the corporate boundaries of the Garden Grove Sanitary District (11,584 acres); and several unincorporated Orange County areas contiguous with the District boundaries (451 acres). A 70-acre portion of Fountain Valley was previously within the service area of the District, but has been detached and transferred to the City of Fountain Valley. The transfer to the City of Fountain Valley was completed in October 2010. The District provides wastewater collection service to approximately 31,200 residential customers and 3,100 commercial, industrial, and other customers. The vast majority of the District's customers are single-family residences with some commercial, institutional, and industrial customers. Nothing in the Indenture prohibits the District from consenting to any de-annexation or reorganization of any portion of the District lying outside the boundaries of the Garden Grove Sanitary District, provided the District reasonably determines such proceedings will not impair its ability to set rates and charges which will comply with the Rate Covenant which is described herein and the proceeds of such actions, if any, are deposited in the Revenue Fund.

Treatment and Disposal by Orange County Sanitation District

The Sewer System operates to collect wastewater within the service area of the District, which is delivered to the Orange County Sanitation District ("OCSD") for treatment and disposal. The District does not provide for the treatment and disposal of wastewater which is collected by its Sewer System.

OCSD is a public agency responsible for regional wastewater collection, treatment and disposal, and is the 6th largest wastewater discharger in the United States. OCSD provides services in the northern and central portion of Orange County, a 471 square mile area with a population of 2.6 million people, by treating 240 million gallons per day (mgd) of wastewater. OCSD serves approximately 77% of the County population. OCSD was formed by the Board of Supervisors of the County in 1998 through the consolidation of the then-existing nine special districts which provided wastewater treatment and disposal service. OCSD operates two wastewater treatment plants, and discharges treated wastewater into the Pacific Ocean under a permit issued by the Environmental Protection Agency and the Regional Water Quality Control Board.

OCSD has the power to establish fees and charges for its services which are not subject to review or approval by the District or any other agencies. OCSD collects a Sewer Service Charge from property owners within its service area, including property owners within the service area of the District, through a semiannual property tax bill which is administered by the County. The District does not bill its customers for the services provided them by OCSD, nor does the District provide any payments directly to OCSD. OCSD does not levy any fees or charges directly upon the District, although it is not prohibited from doing so in the future.

Maintenance of Sewer System

The Sewer System is operated and maintained by the District, through the Water Services Division of the City of Garden Grove's Public Workers Department. The District is responsible for sewer facilities for the District, as well as providing ongoing maintenance, inspection, replacement and repair to the sewer system.

Description of System

The District owns approximately 320 miles of gravity sewer pipes and three sewer pump stations. The gravity sewer pipes collect the wastewater from the service area, and convey it to either the OCSD's trunk sewers, or to one of the three sewer pump stations. The gravity sewer system was constructed, mostly of vitrified clay pipe (VCP), between 1923 and the present. The system includes 160 feet of 4-inch; 38,472 feet of 6-inch; 1,316,714 feet of 8-inch; 98,695 feet of 10-inch; 67,291 feet of 12-inch, 42,801 feet of 15-inch, 31,684 feet of 18-inch; 7,118 feet of 21-inch; and 9,310 feet of 24-inch diameter pipes. As the service area generally slopes from northeast to southwest, most of the collection system pipes convey the wastewater from their tributary areas south and west before discharging into OCSD's regional collection system.

The District owns and maintains three wastewater pump stations: Tiffany Pump Station, Belgrave Pump Station, and Partridge Pump Station. The District eliminated the Harbor-Edinger Pump Station by diverting the flow by gravity to the Orange County Sanitation District's Newhope-Placentia Trunk Sewer. The tributary sewers were annexed to the City of Fountain Valley, who now maintains the service in this area.

Tiffany Pump Station is a submersible pump station located at 12775 Valley View St., Garden Grove, CA. The station sits at the southwest corner of an office complex parking lot located on the southwest corner of Valley View Street and Tiffany Avenue. The station was originally constructed in the early 1960's by the Midway Sanitary District and transferred to the Garden Grove Sanitary District in 1997. The Garden Grove Sanitary District constructed the current Tiffany Pump Station in 2010. The station serves a 222.2 acre tributary consisting of mostly low density residential with some light commercial areas. Tiffany Pump Station has two

(2) WEMCO Hydrostal submersible pumps (Model F6K-H) with screw-centrifugal impellers. The pumps are driven by 75 HP motors. Per the certified pump curve, the pumps deliver 1,560 gallons per minute at a total dynamic head of 104 feet when operating at 1,785 revolutions per minute. The wet well is reinforced concrete, T-lock lined rectangular structure with overall inside dimensions of 19.67' wide 29' long, and 29' high. The bottom elevation is -5.26 ft. above mean sea level. The wet well is divided into an operational storage section and an emergency storage section. The wastewater tributary to the Tiffany Pump Station is pumped through approximately 5,370 feet of 12 inch diameter PVC pipe. The force main extends east on the north side of the Garden Grove Freeway for 2,500 feet and goes under the freeway then east to the Miller-Holder Trunk Sewer located near Springdale Street.

Belgrave Pump Station is a submersible pump station located adjacent to and behind 5856 Belgrave Avenue, Garden Grove, CA. The pump station is located within a Montessori school parking lot, just north of the Belgrave Channel, an Orange County Flood Control District facility. The station was originally constructed in the early 1960's by the Midway City Sanitary District and upgraded/rebuilt in 2013 by the Garden Grove Sanitary District. Belgrave Pump Station serves a 277.8 acre tributary area consisting of mostly low density residential, as well as some medium density, community residential, and light commercial areas. It has two (2) WEMCO Hydrostal submersible pumps (Model F6K-M) with screw-centrifugal impellers. The pumps are driven by 60 HP motors. Per the certified pump testing curves, the pump will deliver 1,400 gpm at a total dynamic head of 86 to 89 feet when operated at 1750 rpm. The District has an identical spare pump, which can be installed at the facility if one pump has to be removed for service. The wet well is reinforced concrete, T-lock lined rectangular structure with dimensions 7' by 11.17' and 19.83' high. The bottom of the structure is located at elevation 8.0' amsl. The waste water tributary to the Belgrave Pump Station is pumped through approximately 3,700 feet of 12 inch diameter DR 14 PVC force main piping. The force main was constructed in 1999. It extends from the south side of the dry well, towards the Belgrave Channel past Valley View, to the OCSD's Miller-Holder Trunk Sewer located in Springdale Street.

Partridge Pump Station is a submersible facility located to the east of Partridge Street cul-de-sac north of the Thunderbird Mobile Home Park, south of Garden Grove Boulevard. The station was completed in 2010. The pump station serves 14 acre tributary area consisting of mostly low medium density residential, office professional, and open space. Partridge Pump Station has two submersible pumps with 120 gpm capacity at 17' total dynamic head. The wet well is an 8 feet diameter precast concrete structure that is 19.75' tall. The bottom elevation is 88 feet amsl. The wastewater tributary to the Partridge Pump Station is pumped through 410 ft. of 4 inch diameter PVC force main. The force main extends north to the gravity sewer at Partridge and Garden Grove Boulevard.

District Customers

A five-year history of residential accounts and commercial accounts is shown in the following table.

**TABLE 1
GARDEN GROVE SANITARY DISTRICT
Residential and Commercial Sewer Accounts**

	County Area	Garden Grove	Total No. of Accounts
2011-12	1,856	33,176	35,032
2012-13	1,858	33,220	35,078
2013-14	1,857	33,265	35,122
2014-15	1,859	33,295	35,154
2015-16	1,856	33,312	35,168

Source: Garden Grove Sanitary District

The vast majority of the District’s customers are single-family residences with some commercial, institutional and industrial customers. The ten principal users of the Sewer System, based on revenue, for the Fiscal Year ended June 30, 2016 are shown in the following table.

**TABLE 2
GARDEN GROVE SANITARY DISTRICT
Top Ten Sewer System Users
Fiscal Year 2015-16**

Customer	Service Type	Average Annual Revenue	Percent of Total Revenues
Arroyo Dev Prtnr Llc Mpms Inc	Multi-Unit (Apartment)	\$ 27,948.56	0.40%
Windsor Apts Qualicare Enterprise, Llc	Multi-Unit (Apartment)	18,111.60	0.26
Garden Grove Hospital	Hospital	17,660.60	0.25
Lakeside Hoa Optimum Prop Mgmt	Muti-Unit (Apartment)	14,343.92	0.20
Nguyen, Thomas	Multi-Unit (Apartment)	13,289.46	0.19
Greenbriar Action Prop Mgmt	Multi-Unit (Apartment)	12,642.56	0.18
Bertram Management, Llc	Multi-Unit (Apartment)	12,530.00	0.18
Chapman Care Center	Hospital	11,392.68	0.16
Grove Park Apts	Multi-Unit (Apartment)	11,259.21	0.16
Garden Grove Commerce Center	Commercial	10,325.14	0.15

Source: Garden Grove Sanitary District.

Future Sewer Capital Plans

Pursuant to a sewer master plan for the District which addresses capacity and structural deficiencies of the Sewer System, the District has been funding capital improvements to the Sewer System in the amount of approximately \$4-5 million per year. Such capital improvements have been funded out of available Revenues from the current and prior fiscal years. The District expects that it will continue to finance additional capital improvements to the Sewer System out of available Revenues, but does not anticipate the need to issue additional bonds or other indebtedness of the Sewer System to provide funding in the foreseeable future.

In the event the District were to issue additional bonds or other indebtedness to provide financing for improvements to the Sewer System, such additional bonds or indebtedness would be subject to the provisions described herein relating to additional debt. See "SECURITY FOR THE BONDS – Additional Indebtedness."

Current Rate Charges and Billing Procedures

The District commissioned a Financial Analysis and Rate Study (the "**Rate Study**") dated July 18, 2005, prepared by AKM Consulting Engineers, Irvine, California. Based upon the recommendations of the Rate Study, the Board of Directors of the District adopted Ordinance No. 7 (the "**Rate Ordinance**") on September 13, 2005 to implement a new rate structure for the Sewer System.

User Fee. Commencing with the effective date of the Rate Ordinance, the owner of each parcel of real property located within the District which is improved with structures designed for residential, commercial, or industrial use which is connected to the District's system, is required to pay a monthly Sewer User Fee based on the appropriate user class. The monthly User Fee is determined by a base charge plus a usage charge of \$0.91 per hundred cubic feet ("**HCF**") of water used during month of lowest consumption (determined annually, based on analysis of 12 months of water billing data), not to exceed the a maximum billing cap designated for each customer class.

For an average single-family home, the current monthly bill under the Rate Ordinance is \$13.34, of which \$4.24 represents the base charge and \$9.10 represents the usage charge. The monthly usage charge for any single-family home is capped at 10 HCF of water.

The rates adopted under the Rate Ordinance will be annually adjusted for increases or decreases in inflation, based on the Engineering News Record Construction Costs Index – Los Angeles Area. However, if the inflation adjustment in any year exceeds 6% under this inflation index, the amount of the inflation adjustment is required to be presented by the General Manager to the Board for final legislative determination.

Billing Procedures. The District has two methods for the collection of the sewer revenues. For accounts that are part of the District and have water accounts within the City, the District sewer charge is charged on the water bill on a bi-monthly basis. The sewer charge is paid at the time the water bill is paid. The payment received for the sewer billing has a priority of application, and consequently, the first payment goes to pay any sewer charges and the remainder of the payment goes to the payment of the water bill. Therefore, if the bill is not paid in full this may result in the water being turned off. Because of this method of application of payment there is no significant amount of delinquent bills. All bills are due and payable on the date of billing and become delinquent 35 days thereafter. If a bill remains unpaid on the 42nd day after billing, all services are subject to termination until all fees, charges, penalties and the entire delinquent balance have been paid.

Accounts that are part of the District but do not have water accounts within the City, are collected through the property tax bill for the each of the applicable parcels. The charges for sewer are submitted to the County Assessor by August 10 of each year. The Assessor places the charges on the property tax rolls for collection. Since the District is part of the Teeter Plan for the County, the County will pay the assessment to the District whether it collects the charges or not. Therefore, again there are no delinquent sewer charges because of the use of the Teeter Plan.

Comparative Rates

The table below compares the District’s current sewer service charge to the typical monthly cost for a single family home in eight communities in the Garden Grove area.

**TABLE 3
GARDEN GROVE SANITARY DISTRICT
Comparative Rates- Monthly Sewer Charges
Fiscal Year 2015-16**

Agency	2016 Monthly Residential Sewer Charge
Anaheim	\$5.43
Fullerton	15.00
Fountain Valley	6.19
Huntington Beach	10.69
Seal Beach	21.03
Newport Beach	8.70
Santa Ana	6.90
Cypress	9.48
Garden Grove	13.34

Source: Garden Grove Sanitary District.

Property Tax Revenues

The District receives a portion of the basic 1% tax levy which is described below under “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS - Article XIII A of the California Constitution”. Since 2001 the policy of the District has been to allocate 88% of the tax levy in each fiscal year to the Sewer System and to allocate the remaining 12% to the District’s solid waste enterprise. The District reserves the right to reallocate a greater or lesser amount of the annual tax levy to the Sewer System in any future fiscal year. For fiscal year 2015-16, the District allocated \$2,770,045 from this source to the Sewer System. Property tax revenues which are allocated to the Sewer System by the District constitute a part of the “Revenues” which are pledged to the payment of the Installment Payments.

The following table shows the assessed valuation of taxable properties in the City during the fiscal years 2006-07 through 2015-16. Economic and other factors beyond the District’s control, such as economic recession, deflation of land values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire or other natural disaster, could cause a reduction in the assessed value within the District.

TABLE 4
GARDEN GROVE SANITARY DISTRICT
Assessed Valuation
Fiscal Years 2006-07 through 2015-16

Fiscal Year	Total		
Ending	Secured	Unsecured	Assessed Value
2007	\$8,876,151	\$321,203	\$9,197,354
2008	9,569,537	324,404	9,893,941
2009	9,729,884	346,877	10,076,761
2010	9,306,477	370,450	9,676,927
2011	9,304,082	321,497	9,625,579
2012	9,492,746	303,025	9,795,771
2013	9,580,743	303,685	9,884,428
2014	9,933,103	308,944	10,242,047
2015	10,538,784	356,435	10,895,219
2016	10,568,876	234,280	10,803,156

Budgetary and Financial Procedures

Maintenance, operations and capital expenditure costs and debt service requirements of the Sewer System are estimated annually by the Garden Grove Department of Public Works. These estimates are submitted as an expenditure plan to the Board of Directors prior to June 1 of each fiscal year. The Board of Directors then conducts a public hearing to receive comments regarding the proposed expenditure plan, and also holds an in-depth study session of the proposed expenditure plan with management of the Sewer System. Prior to July 1, the Board of Directors adopts the expenditure plan, as adjusted in the study session, as the budget of the District’s Sanitary Sewer Fund.

The City Manager, acting as the General Manager of the District, is authorized by the Board of Directors to transfer budget amounts as needed between expenditure categories within the District’s Sanitary Sewer Fund. However, revisions that increase the total budgeted expenditures of such fund must be taken to the Board of Directors for approval.

Financial Statements

A copy of the most recent audited financial statements of the City, which includes financial information relating to the District, for the fiscal year ending June 30, 2016, prepared by Davis Farr LLP, Certified Public Accountants, Irvine, California are included as Appendix B hereto (the “Financial Statements”). The Financial Statements have been prepared on a combined basis and include the Sewer Fund, which is accounted for as an enterprise fund. The obligation of the District to pay Debt Service on the Bonds is limited to Net Revenues of the Sewer System and the District is not obligated to apply any other revenues to make such payments.

The auditor’s letter concludes that the audited financial statements present fairly, in all material respects, the financial position of the District and the results of its operations and cash flows for the year then ending in conformity with generally accepted accounting principles.

Existing Obligations of the Sewer System

2006 Installment Purchase Agreement. The District has previously entered into the 2006 Installment Purchase Agreement under which it is obligated to pay the 2006 Installment Payments. The 2006 Installment Payments are secured by a pledge of the Revenues. Upon the issuance of the Bonds, the obligation of the District to pay the 2006 Installment Payments will be refunded and discharged, and will no longer be secured by a pledge of the Revenues.

Private Sewer Lateral Loan Agreement. The Garden Grove Sanitary District has entered into a Private Sewer Lateral Loan Agreement with The Helen Brooks Montgomery Revocable Trust on October 1, 2012, for an original amount of \$10,000. The loan is due and payable at the simple annual interest rate of 2.24%. Monthly payments in the amount of \$65.47 are required. Loan principal is amortized over the 15-year life and the principal portion of monthly payment reduces the loan payable. The loan is not secured by a pledge of or lien on the Revenues and, as such, is subordinate to the payment of Debt Service on the Bonds.

Historic Operating Results

The following table is a summary of operating results of the Sewer System of the District for the last five Fiscal Years and the resulting debt service coverage for the 2006 Installment Payments.

TABLE 5
GARDEN GROVE SANITARY DISTRICT
SEWER SYSTEM
Historic Operating Results and Debt Service Coverage
Fiscal Years 2011-12 through 2015-16

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Operating revenues:					
Property Assessments ⁽¹⁾	\$2,229,195	\$2,564,378	\$2,269,292	\$2,439,246	\$2,770,045
Sewer user fees	6,803,298	7,332,056	7,723,261	7,521,842	7,476,269
Other	117,111	182,432	17,417	18,786	20,942
Total operating revenues	<u>9,149,604</u>	<u>10,078,866</u>	<u>10,009,970</u>	<u>9,979,874</u>	<u>10,267,256</u>
Operating expenses:					
Salaries and wages	2,034,150	2,124,434	1,920,697	2,223,357	2,261,372
Contractual services	1,399,394	1,434,163	1,201,769	1,485,582	1,411,026
Materials and supplies	121,666	87,276	141,945	106,022	208,598
Depreciation	1,477,184	1,546,161	1,468,192	1,954,908	1,791,405
Total operating expenses	<u>5,032,394</u>	<u>5,192,034</u>	<u>4,732,603</u>	<u>5,769,869</u>	<u>5,672,401</u>
Operating income	4,117,210	4,886,832	5,277,367	4,210,005	4,594,855
Non-operating revenues (expenses)					
Investment income	143,515	224,024	351,423	262,658	253,959
Interest expense	(986,550)	(967,516)	(947,683)	(927,050)	(905,608)
Total non-operating revenue	<u>(843,035)</u>	<u>(743,492)</u>	<u>(596,260)</u>	<u>(664,392)</u>	<u>(651,649)</u>
Income before contributions and transfers	3,274,175	4,143,340	4,681,107	3,545,613	3,943,206
Transfers In	--	--	--	--	--
Transfers out	--	--	--	--	--
Change in net assets	<u>3,274,175</u>	<u>4,143,340</u>	<u>4,681,107</u>	<u>3,545,613</u>	<u>3,943,206</u>
Total net assets, July 1	62,712,986	65,987,161	69,959,207	74,640,314	72,713,018
Prior period adjustment	--	(171,294) ⁽²⁾	--	(5,472,909) ⁽³⁾	--
Total net assets, July 1, as restated	<u>62,712,986</u>	<u>65,815,867</u>	<u>69,959,207</u>	<u>69,167,405</u>	<u>72,713,018</u>
Total net assets, June 30	\$65,987,161	\$69,959,207	\$74,640,314	\$72,713,018	\$76,656,224
Operating Income before depreciation	\$5,594,394	\$6,432,993	\$6,745,559	\$6,164,913	\$6,386,260
2006 Installment Payments	1,462,341	1,463,341	1,463,541	1,462,941	1,466,541
Debt Service Coverage	3.83	4.40	4.61	4.21	4.35

(1) See "Property Tax Revenues" above for a description of such Revenues. Amounts shown as Property Assessments represent 88% of the total property taxes collected by the District, which is the amount allocated by the District to the Sewer System.

(2) Prior period adjustment due to a change in accounting principles related to implementation of GASB No. 65.

(3) Prior period adjustment to record net pension liability related to implementation of GASB No. 68. See Appendix D under the caption "Employee Retirement System."

Source: City of Garden Grove Comprehensive Annual Financial Reports.

Historic Balance Sheet

The following table is a summary of balance sheet of the Sewer System of the District for the last five Fiscal Years.

TABLE 6
GARDEN GROVE SANITARY DISTRICT
SEWER SYSTEM
Historic Balance Sheet
Fiscal Years 2011-12 through 2015-16

	2011-12	2012-13	2013-14	2014-15	2015-16
Current Assets:					
Cash and cash investments	\$24,488,418	\$24,522,628	\$25,698,811	\$27,449,722	\$31,631,719
Cash and cash investments with fiscal agents	1,505,509	1,505,509	1,467,250	1,505,509	1,505,509
Taxes receivable	126,560	35,218	29,971	27,139	24,425
Accounts receivable	1,154,504	1,256,556	1,246,306	1,365,991	1,301,420
Interest receivable	110,887	91,016	91,973	93,158	82,791
Total current assets	<u>27,385,878</u>	<u>27,410,927</u>	<u>28,534,311</u>	<u>30,441,519</u>	<u>34,545,864</u>
Noncurrent assets:					
Notes receivable	--	9,588	9,011	7,832	7,806
Prepaid bond insurance costs	247,348	75,502	72,746	69,440	66,133
Capital assets:					
Land	1,092,945	1,092,945	1,092,945	1,092,945	1,092,945
Construction in progress	2,332,700	4,561,880	9,929,885	823,892	1,020,800
Depreciable capital assets, net	56,189,595	57,731,368	56,390,187	65,373,180	64,261,958
Total noncurrent assets	<u>59,862,588</u>	<u>63,471,283</u>	<u>67,494,774</u>	<u>67,367,289</u>	<u>66,449,642</u>
Total assets	87,248,466	90,882,210	96,029,085	97,808,808	100,995,506
Deferred Outflows of Resources					
Pension related items ⁽¹⁾	--	--	--	441,543	461,150
Total Deferred Outflows	<u>--</u>	<u>--</u>	<u>--</u>	<u>441,543</u>	<u>461,150</u>
Current Liabilities:					
Accounts payable	357,411	303,913	1,519,083	347,052	62,721
Accrued liabilities	47,239	272,439	53,074	69,709	201,089
Refundable deposits	8,383	39,523	8,383	8,383	8,383
Interest payable	40,348	8,383	38,664	37,773	36,839
Current portion of long-term obligations	--	--	--	--	--
Long-term debt	495,000	515,000	535,000	560,000	580,000
Total current liabilities	<u>948,381</u>	<u>1,139,258</u>	<u>2,154,204</u>	<u>1,022,917</u>	<u>889,032</u>
Noncurrent portion of long-term obligations:					
Long-term debt	20,312,924	19,783,745	19,234,567	18,660,388	18,066,209
Net pension liability	--	--	--	4,880,361	5,257,148
OPEB liability	--	--	--	--	185,248
Total noncurrent liabilities	<u>20,312,924</u>	<u>19,783,745</u>	<u>19,234,567</u>	<u>23,540,749</u>	<u>23,508,605</u>
Total liabilities	<u>21,261,305</u>	<u>20,923,003</u>	<u>21,388,771</u>	<u>24,563,666</u>	<u>24,397,637</u>
Deferred inflows of resources:					
Pension related items ⁽¹⁾	--	--	--	973,667	402,795
Total deferred inflows	<u>--</u>	<u>--</u>	<u>--</u>	<u>973,667</u>	<u>402,795</u>
Net Investment in capital assets	40,312,825	44,592,957	49,110,700	49,575,138	49,235,003
Unrestricted	25,674,336	25,366,250	25,529,614	23,137,880	27,421,221
Total net position	<u>\$65,987,161</u>	<u>\$69,959,207</u>	<u>\$74,640,314</u>	<u>\$72,713,018</u>	<u>\$76,656,224</u>

(1) Deferred Outflows and Inflows of resources are due to implementation of GASB No. 68. See Appendix D under the caption "Employee Retirement System."

Source: City of Garden Grove Comprehensive Annual Financial Reports.

Debt Service Coverage

The District’s projected operating results for fiscal years 2016-17 through 2022-23, and the resulting debt service coverage ratios for the Bonds, are shown in the following table. Such table also shows the District’s estimated operating results for the current 2016-17 fiscal year and the projected operating results for the Sewer System for the remaining fiscal years shown in the table below. The fiscal forecast represents the District’s estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. The assumptions used in the projected years are identified in the footnotes to the table.

The assumptions set forth in the following table are material in the development of the District’s financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

**TABLE 7
GARDEN GROVE SANITARY DISTRICT
SEWER SYSTEM
Estimated and Projected Operating Results
Fiscal Years 2016-17 through 2022-23**

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>
Revenues:							
Sewer user fees ⁽¹⁾	7,080,000	7,363,200	7,657,728	7,964,037	8,282,599	8,613,903	8,958,459
Grants & subventions	-	-	-	-	-	-	-
Property assessments ⁽²⁾	2,081,000	2,164,240	2,250,810	2,340,842	2,434,476	2,531,855	2,633,129
Interest ⁽³⁾	339,000	342,390	345,813	349,272	352,765	356,292	359,855
Total Revenues	9,500,000	9,869,830	10,254,352	10,654,151	11,069,839	11,502,050	11,951,443
Operating Expenses ⁽⁴⁾							
Salaries and wages	2,952,713	3,070,822	3,193,654	3,321,401	3,454,257	3,592,427	3,736,123
Contractual services	1,207,935	1,256,252	1,306,502	1,358,763	1,413,113	1,469,638	1,528,423
Additional O&M	410,745	427,175	444,262	462,032	480,514	499,734	519,723
Allocated overhead	642,700	668,408	695,144	722,950	751,868	781,943	813,221
Materials & supplies	248,533	258,474	268,813	279,566	290,748	302,378	314,474
Total Costs	5,462,626	5,681,131	5,908,376	6,144,711	6,390,500	6,646,120	6,911,965
Net Revenues	4,037,374	4,188,699	4,345,975	4,509,440	4,679,339	4,855,930	5,039,478
2006 Inst Payments ⁽⁵⁾	442,071	-	-	-	-	-	-
2017 Bonds ^{(6)*}	759,923	1,202,150	1,202,450	1,197,250	1,201,250	1,203,750	1,199,750
Total	1,201,993	1,202,150	1,202,450	1,197,250	1,201,250	1,203,750	1,199,750
Coverage	3.36	3.48	3.61	3.77	3.90	4.03	4.20

(1) Assumes constant annual increases of 4% in the District’s rates and charges. There is no assurance that rates will be adopted as projected. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES - Proposition 218.”
(2) Property Assessments are projected to increase by 4% annually, with an assumed allocation by the District of 88% of total tax collections to the Sewer System.
(3) Interest earnings assume a constant rate of 1% applied against the District’s estimated cash balance.
(4) Operating expenses are projected to increase by approximately 4% annually.
(5) 2006 Certificates will be refunded and no longer outstanding after 2016-17.
(6) Estimated debt service payments for the Bonds.
* Preliminary; subject to change.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the California Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The “base year” for establishing such 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: (i) the financial responsibility for a service is transferred to another public entity or to a private entity; (ii) the financial source for the provision of services is transferred from taxes to other revenues; or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by 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: (a) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost reasonably borne by the entity in providing the service or regulation); and (b) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit, including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by a vote of electors of the issuing entity and payments 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 District is of the opinion that its charges for Sewer 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. The District has covenanted in the Indenture that it will, at all times while any of the Bonds remain unpaid, to the fullest extent permitted by law, fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Sewer Service that are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (which, when calculated for purposes of the foregoing covenant, do not include amounts transferred from the Rate Stabilization Fund (if established) pursuant to the Indenture that are in excess of 15% of Debt Service for such Fiscal Year) equal to 115% of Debt Service for such Fiscal Year. See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

Proposition 218

General. An initiative measure entitled 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 Article XIIC and Article XIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIID. Article XIID 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 XIID 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 XIID requires that any agency imposing or increasing 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, if and to the extent that a fee or charge imposed by a local government for wastewater service is ultimately determined to be a “fee” or “charge” as defined in Article XIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID includes a number of limitations applicable to existing fees and charges, including provisions to the effect that: (i) revenues derived from the fee or charge may not exceed the funds required to provide the property-related service; (ii) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge 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 (iv) 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 rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated 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 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 District has complied with the notice and public hearing requirements of Article XIID in determining whether to change Sewer 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 Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including 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 District’s

wastewater rates, which are described under the caption “THE SEWER SYSTEM,” do not currently include tiered rates based on usage. The District does not currently expect the decision in the *SJC* Case to affect its water rate structure. The District believes that its current wastewater rates comply with the requirements of Proposition 218 and expects that any future wastewater rate increases will comply with Proposition 218’s procedural and substantive requirements to the extent applicable thereto.

Article XIII C. Article XIII C 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 XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIII D referred to above were applicable to Article XIII C. Moreover, the provisions of Article XIII C 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 XIII C included 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. In any event, the District does not believe that Article XIII C grants to the voters within the District the power to repeal or reduce rates and charges for the Sewer Service in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the Beneficial Owners of the Bonds. Remedies available to Beneficial Owners of the Bonds in the event of a default by the District 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 contained in the applicable documents themselves, the rights and obligations with respect to the Bonds and the Indenture 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 E), will be similarly qualified.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the California Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (b) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property,

or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 applies to charges imposed or increased after November 2, 2010 and provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The District believes that its wastewater rates and charges are not taxes under Proposition 26.

Future Initiatives

Articles XIIB, XIIC and XIID and Proposition 26 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 District's revenues or ability to increase revenues.

BOND OWNERS' RISKS

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

Limited Obligations

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

Accuracy of Assumptions

To estimate the revenues available to pay Debt Service on the Bonds, the District has made certain assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with operating the Sewer System and the interest rate at which funds will be invested. The District believes these assumptions to be reasonable, but to the extent that any of these assumptions fail to materialize, the Revenues available to pay Debt Service on the Bonds will, in all likelihood, be less than those projected herein. See the caption "THE SEWER SYSTEM — Debt Service Coverage." Projected Sewer System operating results assume the implementation of certain rate increases in future years; however, all such rate increases are subject to the substantive and procedural requirements of Proposition 218 and there can be no assurance that such rate increases will be adopted. See the caption "— Rate-Setting Process under Proposition 218." The District may choose to maintain compliance with the rate covenant

set forth in the Indenture in part by means of contributions from available reserves or resources. In such event, Net Revenues may generate amounts which are less than 1.15 times Debt Service in any given Fiscal Year. See the caption "SECURITY FOR THE BONDS—Rate Covenants."

Sewer System Demand

There can be no assurance that the local demand for wastewater service provided by the Sewer System will be maintained at levels described in this Official Statement under the heading "THE SEWER SYSTEM." Reduction in the level of demand could require an increase in rates or charges in order to produce Revenues sufficient to comply with the District's rate covenants in the Indenture. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand. Furthermore, there can be no assurance that any other entity with regulatory authority over the Sewer System will not adopt further restrictions on operation of the Sewer System.

Sewer System Expenses

There can be no assurance that Maintenance and Operation Costs of the Sewer System will be consistent with the levels described in this Official Statement. Changes in technology, increases in the cost of energy or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Parity Obligations

Although the District has covenanted not to issue additional obligations payable from Net Revenues senior to the Bonds, the Indenture permits the issuance by the District of certain indebtedness which may have a lien upon the Net Revenues which is on a parity basis to the lien which secures the Bonds, if certain coverage tests are met (see "SECURITY FOR THE BONDS – Additional Indebtedness"). These coverage tests involve, to some extent, projections of Net Revenues. If such indebtedness is issued, the debt service coverage for the Bonds will be diluted below what it otherwise would be subject to under the coverage tests. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Bonds and such additional indebtedness.

Natural Disasters

The District, like all southern California communities, is likely to be subject to unpredictable seismic activity, fires or other natural calamities. If there were a severe seismic, flood or other natural calamity in the District, there could be substantial damage to and interference with the District, including the Sewer System, which could affect the receipt of Revenues and adversely affect the District's ability to pay debt service on the Bonds.

Seismic Risks. The District, like most communities in the State of California, is located in an area of unpredictable seismic activity, and therefore, is subject to potentially destructive earthquakes. Although the District is not within an Alquist-Priolo

Special Study Zone and no active faults are known to occur directly under the District, there are known fault splays beneath the District, and the District could be at risk from strong ground motion from a number of nearby seismically active faults. The District is not obligated under the Indenture and it does not intend to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Sewer System. In the event that any portion of the Sewer System is destroyed by an earthquake, the District may not be able to collect adequate Revenues as needed to pay the principal and interest on the Bonds as and when due.

Flood Risk. Most of the District is subject to very minimal flood risk, and is located in a low risk flood zone. In the City of Garden Grove, the flood zone areas are designated by Federal Emergency Management Agency ("FEMA") as Flood Zone A or Flood Zone X. Flood Zone A is designated as the high risk, Special Flood Hazard Area (SFHA), inundated by a 100-year floodplain. Flood Zone X designates areas of a 500-year flood; areas of 100-year flood with average depths of less than 1-foot or with drainage less than 1-square mile; and areas protected by levees from a 100-year flood.

Environmental Regulation; Financial Responsibility for Violations

The kind and degree of wastewater service which is effected through the Sewer System is regulated, to a large extent, by the federal government and the State of California. If the federal government, acting through the Environmental Protection Agency or additional legislation, or the State should impose stricter wastewater quality standards upon the Sewer System, its expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction which federal or State regulation will take with respect to wastewater treatment standards.

Rate-Setting Process under Proposition 218

Proposition 218, which added Articles XIIC and XIID to the California Constitution, affects the District's ability to maintain existing rates and impose rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the District might thereafter be unable to generate Revenues in the amounts required by the Indenture to pay the Bonds. The District believes that the current wastewater rates approved by the District were effected under the public hearing and majority protest provisions of Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

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

Limited Recourse on Default

If the District defaults on its obligation to pay debt service on the Bonds, the Trustee has the right to accelerate the total unpaid principal amounts of the Bonds. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient Revenues to pay the accelerated amount due on the Bonds.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the District may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

No Obligation to Tax

The obligation of the District to pay debt service on the Bonds does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay debt service on the Bonds does not constitute a debt or indebtedness of any city, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Property Tax Revenues

The District receives a portion of the basic 1% tax levy which is allocated to the Sewer System, 88% of which is allocated to the Sewer System. No assurances can be given that the District will continue to allocate such portion of its property tax revenues to the Sewer System in any future fiscal year. In addition, economic and other factors beyond the District’s control, such as economic recession, deflation of land values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire or other natural disaster, could cause a reduction in the assessed value within the District which, in turn, would cause a reduction in the amount of property taxes which are payable to the District.

Change in Law

In addition to the other limitations described in this Official Statement, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the District. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Revenues and adversely affecting the security of the Bonds.

Loss of Tax Exemption

As discussed in this Official Statement under the caption “TAX MATTERS,” interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District in violation of its covenants in the Indenture. In addition, current and future legislative

proposals, if enacted into law, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the aggregate amount of interest on state and local government bonds that may be treated as tax exempt by individuals. Should such an event of taxability occur, the Bonds are not subject to a special prepayment and will remain outstanding until maturity.

Secondary Market for Bonds

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

TAX MATTERS

In the opinion of 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 and corporations. 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 notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

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 District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (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 District has 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 corporations, 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 INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's 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 District continues 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 complete copy of the proposed opinion of Bond Counsel is set forth in Appendix E.

CERTAIN LEGAL MATTERS

Stradling, Yocca, Carlson & Rauth, a Professional Corporation, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in Appendix E. Bond Counsel has assumed no responsibility for the accuracy, completeness or fairness of the Official Statement.

Certain legal matters will also be passed upon for the District by Jones Hall, as Disclosure Counsel, for the District by the City Attorney and for the Underwriter by Nixon Peabody LLP, Los Angeles, California.

Payment of the fees and expenses of Bond Counsel and Disclosure Counsel is contingent upon issuance of the Bonds.

LITIGATION

To the best knowledge of the District, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the District to restrain or enjoin the authorization, execution or delivery of the Bonds, or the pledge of the Net Revenues or the collection of the payments to be made pursuant to the Indenture, or in any way contesting or affecting validity of the Bonds, the Indenture or the agreement for the sale of the Bonds, or in any way contesting or affecting the transactions described in this Official Statement.

RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("**S&P**"), has assigned its rating of "____" to the Bonds. The District has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement). Such rating reflects only the view of S&P and an explanation of the significance of such rating and related outlooks may be obtained only from S&P. There is no assurance that any credit ratings given to the Bonds will be maintained for any period of time or that a rating may not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

The District has covenanted in its continuing disclosure certificate (the "**Undertaking**") for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and other operating data on an annual basis and to provide notice of certain enumerated events as required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "**Rule**"). The specific nature of the information to be contained in the annual report or the notices of enumerated events is summarized under the caption "APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with the Rule.

The District has previously entered into numerous disclosure undertakings under the Rule in connection with the issuance of long-term obligations. In the past five years, the District has not failed to comply in all material respects with its continuing disclosure undertakings under the Rule.

Any failure by the District to comply with the provisions of its Undertaking will not constitute a default under the Indenture (although owners of the Bonds will have any remedy available at law or in equity as provided in the Undertaking). Nevertheless, a failure to comply must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds.

VERIFICATION REPORT

Grant Thornton, Minneapolis, Minnesota, upon delivery of the Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the District, relating to (a) the sufficiency of the funds deposited with the Prior Trustee to pay, when due, to pay the redemption price of all of the outstanding 2006 Certificates and the related 2006 Installment Payments upon the optional prepayment thereof, and (b) the "yield" on the escrow securities and on the Bonds considered by Bond Counsel in connection with the opinion rendered by such firm that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

UNDERWRITING

The Bonds are being purchased by Stern Brothers & Co. (the “**Underwriter**”). The Underwriter has agreed to purchase the Bonds at a purchase price of \$_____ (which is equal to the principal amount of the Bonds (\$_____)), plus a net original issue premium of \$_____, less an underwriter’s discount of \$_____).

The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page. The offering price may be changed from time to time by the Underwriter.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the Board of Directors of the District.

GARDEN GROVE SANITARY DISTRICT

By _____
President

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY OF GARDEN GROVE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
GARDEN GROVE SANITARY DISTRICT
Revenue Refunding Bonds, Series 2017

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by Garden Grove Sanitary District (the "District") in connection with the issuance of the \$_____ aggregate principal amount of Garden Grove Sanitary District Revenue Refunding Bonds, Series 2017 (the "Bonds"). The Bonds are being issued under an Indenture of Trust dated as of April 1, 2017 (the "Indenture") between the District and U.S. Bank National Association, as trustee (the "Trustee"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

"*Annual Report*" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4.

"*Annual Report Date*" means the date that is nine months after the end of the District's fiscal year (currently March 31 based on the District's fiscal year end of June 30).

"*Dissemination Agent*" means, initially _____, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

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

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

"*Participating Underwriter*" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2018 with the report for the 2016-17 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

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

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

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

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

(a) Audited financial statements (which may be included in audited financial statements of the City of Garden Grove) 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 District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, the following information with respect to the most recently completed fiscal year

- (i) a schedule of sewer rates in effect as of the close of the preceding fiscal year, by classification of customer;
- (ii) total Net Revenues received by the District during the preceding fiscal year and the amount by which such Net Revenues provide coverage for the payments of Debt Service coming due in such fiscal year with respect to the Bonds and all obligations on a parity therewith; and
- (iii) for each customer whose total billings in the preceding fiscal year represent 10% or more the Revenues of the Sewer System, (1) the total amount of Revenues derived from such customer and (2) the percent of total Revenues represented by such customer for such fiscal year.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the District shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

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

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

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that District determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of the occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

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

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate 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

District shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

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

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 10. Additional Information. Nothing herein prevents the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is

required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate inures solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and creates no rights in any other person or entity.

Dated: _____, 2017

GARDEN GROVE SANITARY DISTRICT

By: _____
Authorized Officer

Acceptance of Duties as Dissemination Agent:

[Name of Dissemination Agent]

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: Garden Grove Sanitary District

Name of Bond Issue: \$_____Garden Grove Sanitary District
Revenue Refunding Bonds, Series 2017

Date of Issuance: _____, 2017

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture of Trust relating to the issuance of the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

as Dissemination Agent

By: _____

Authorized Officer

cc: Garden Grove Sanitary District

APPENDIX D

GENERAL INFORMATION ABOUT THE CITY OF GARDEN GROVE AND THE COUNTY OF ORANGE

General

The City of Garden Grove is located in central Orange County approximately twenty-five miles southeast of downtown Los Angeles. It is the fifth largest city in Orange County and the nineteenth largest in the State. Despite the City's comparatively large size, it is a relatively young community, having been incorporated on June 18, 1956. During the late 1950's and the 1960's, the City experienced rapid growth as suburban development moved from Los Angeles County to Orange County. The City encompasses an area of 17.8 square miles and is the largest general law city in the State. On May 10, 2016, the City of Garden Grove adopted Ordinance No. 2866 changing the City's at-large system of electing City Council Members to a by district system which took effect in fiscal year 2016-17. The Mayor is elected at-large and the City Council members are elected by six districts. The City's population was estimated to be 177,303 on January 1, 2016 by the State Department of Finance.

Municipal Government

The City operates under a Council-Manager form of government, with the Mayor elected at large for a two-year term, and six council members elected by districts for four-year staggered terms. The City Council engages the City Manager and City Attorney. The City Manager has the responsibility for hiring the department heads and for administering the City's programs in accordance with the policies adopted by the Council.

Population

Population estimates of the past five years for the City, Orange County and the State are shown in the following table.

CITY OF GARDEN GROVE, COUNTY OF ORANGE AND STATE OF CALIFORNIA Population Estimates Calendar Years 2012 through 2016

<u>Year</u>	<u>City of Garden Grove</u>	<u>Orange County</u>	<u>State of California</u>
2012	173,764	3,069,454	37,881,357
2013	175,222	3,103,654	38,239,207
2014	175,806	3,127,403	38,567,459
2015	176,262	3,151,910	38,907,642
2016	177,303	3,183,011	39,255,883

Source: California State Department of Finance, as of January 1.

Employment and Industry

The unemployment rate in Orange County was 4.1 percent in October 2016, up from a revised 4.0 percent in September 2016, and below the previous year estimate of 4.4 percent. This compares with an unadjusted unemployment rate of 5.3 percent for California and 4.7 percent for the nation during the same period.

The table below shows Orange County's labor patterns during 2011 through 2015.

ANAHEIM-SANTA ANA-IRVINE METROPOLITAN DIVISION (ORANGE COUNTY) Civilian Labor Force, Employment and Unemployment (Annual Averages)

	2011	2012	2013	2014	2015
Civilian Labor Force ⁽¹⁾	1,546,400	1,564,500	1,569,200	1,578,200	1,597,100
Employment	1,406,400	1,441,400	1,465,900	1,491,800	1,525,600
Unemployment	140,000	123,100	103,300	86,400	71,500
Unemployment Rate	9.1%	7.9%	6.6%	5.5%	4.5%
<u>Wage and Salary Employment: ⁽²⁾</u>					
Agriculture	3,200	2,800	2,900	2,800	2,500
Mining and Logging	600	600	600	700	700
Construction	69,200	71,300	76,800	82,000	90,400
Manufacturing	154,300	158,300	158,000	157,400	156,900
Wholesale Trade	77,300	77,200	79,400	80,900	81,000
Retail Trade	142,600	144,000	145,500	148,500	151,200
Transportation, Warehousing, Utilities	27,500	28,000	27,500	26,500	26,900
Information	23,800	24,300	25,000	24,500	25,500
Finance and Insurance	71,200	73,800	77,000	76,300	79,600
Real Estate and Rental and Leasing	33,600	34,500	36,100	37,300	37,300
Professional and Business Services	247,700	260,600	267,300	276,600	285,400
Educational and Health Services	172,000	177,000	186,000	190,800	198,800
Leisure and Hospitality	174,000	180,600	187,800	194,500	204,000
Other Services	43,200	44,600	45,600	47,300	48,800
Federal Government	11,600	11,100	11,000	10,900	11,100
State Government	28,000	28,700	29,100	29,900	30,800
Local Government	109,700	108,100	108,600	111,400	114,300
Total, All Industries ⁽³⁾	1,389,600	1,425,600	1,464,100	1,498,200	1,545,200

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

The following table lists some of the largest employers located within the City.

CITY OF GARDEN GROVE Largest Employers June 2016

Employer Name	Jobs
Great Wolf Lodge Southern California	700
Air Industries Company	697
Garden Grove Hospital/Prime Healthcare Svs	516
American Apparel Knit & Dye	500
Hyatt Regency	424
Saint Gobain Performance Plastics	363
Office Max North America Inc.	360
GKN Aerospace Transparency Systems, Inc.	331
Walmart	325
Kaiser Foundation Health Plan Inc.	300

Source: City of Garden Grove.

Effective Buying Income

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

The following table summarizes the total effective buying income for the City, Orange County, the State and the United States for the period 2011 through 2015.

**EFFECTIVE BUYING INCOME
For Calendar Years 2011 Through 2015**

	<u>Year and Area</u>	<u>Total Effective Buying Income (000s omitted)</u>	<u>Median Household Effective Buying Income</u>
<u>2011</u>	City of Garden Grove	\$2,558,765	\$46,106
	County of Orange	76,315,505	57,607
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
<u>2012</u>	City of Garden Grove	\$2,668,395	\$46,596
	County of Orange	81,079,398	57,181
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
<u>2013</u>	City of Garden Grove	\$2,739,055	\$47,446
	County of Orange	81,151,078	59,589
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
<u>2014</u>	City of Garden Grove	\$2,821,175	\$48,545
	County of Orange	83,607,615	60,931
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
<u>2015</u>	City of Garden Grove	\$2,989,335	\$50,793
	County of Orange	90,963,458	64,420
	California	981,231,666	53,589
	United States	7,757,960,399	46,738

Source: The Nielsen Company (US), Inc.

Commercial Activity

A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable transactions reported in the City during the calendar year 2014 were \$1,729,278,000, a 2.98% decrease over the total taxable transactions of \$1,782,344,000 that were reported during calendar year 2013. Annual figures for calendar year 2015 and 2016 are not yet available.

**CITY OF GARDEN GROVE
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)**

	<u>Retail Stores</u>		<u>Total All Outlets</u>	
	<u>Number of Permits</u>	<u>Taxable Transactions</u>	<u>Number of Permits</u>	<u>Taxable Transactions</u>
2010	2,277	\$1,256,993	3,653	\$1,459,914
2011	2,417	1,396,341	3,792	1,623,150
2012	2,441	1,499,207	3,771	1,771,891
2013	2,517	1,498,319	3,827	1,782,344
2014	2,632	1,438,487	3,947	1,729,278

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

A summary of historic taxable sales within Orange County during the past five years in which data is available is shown in the following table. Total taxable sales during calendar year 2014 in Orange County were reported to be \$60,097,128,000 a 4.35% increase over the total taxable sales of \$57,591,217,000 reported during calendar year 2013. Annual figures are not yet available for 2015 or 2016.

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

	<u>Retail Stores</u>		<u>Total All Outlets</u>	
	<u>Number of Permits</u>	<u>Taxable Transactions</u>	<u>Number of Permits</u>	<u>Taxable Transactions</u>
2010	58,076	\$32,552,107	92,047	\$47,667,179
2011	58,795	35,587,795	92,207	51,731,139
2012	60,273	38,372,456	93,183	55,230,612
2013	62,208	40,025,929	94,862	57,591,217
2014	65,291	41,288,537	97,943	60,097,128

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Employee Retirement System

This caption contains certain information relating to California Public Employees' Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The District has not independently verified the information provided by CalPERS and makes no representations and expresses no opinion as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference in this Official Statement. None of the District, the City or the Underwriter can guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or may be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

CalPERS Plan Description. The City's defined benefit pension plans, the Miscellaneous Plan of the City of Garden Grove and the Safety Plan of the City of Garden Grove, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous Plan of the City of Garden Grove and the Safety Plan of the City of Garden Grove are part of the Public Agency portion of CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. The Safety Plan does not cover employees of the District and, therefore, costs of the Safety Plan are not included in Operation and Maintenance Costs of the Sewer System. Accordingly, a description of the Safety Plan has been omitted from this Official Statement.

CalPERS Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employee's Retirement Law.

The provisions and benefits of the Miscellaneous Plan in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date	2.5% @ 55	2.0% @ 62
Benefit formula	5 years service	5 years service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	50-55	52 - 67
Retirement age	2.0% to 2.5%	1.0% to 2.5%
Monthly benefits, as a % of eligible compensation	8.00%	6.75%
Required employee contribution rates	23.976%	23.976%

The City is required to contribute at an actuarially determined rate of annual covered payroll. The actuarially determined rates for each plan for the fiscal years ended June 30, 2015, through June 30, 2017, are as follows:

City's Required Employer Contribution Rate

	Fiscal Year 2015-16		Fiscal Year 2016-17		Fiscal Year 2017-18	
	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
Miscellaneous Plan	23.976%	\$4,244,054	25.846%	\$4,773,319	9.210%	\$5,516,931

Source: CalPERS Actuarial Reports dated, October 2014, October 2015 and August 2016.

On July 18, 2016, CalPERS announced preliminary investment returns for the 12-month period ended June 30, 2016, of 0.61%. Such returns are significantly lower than CalPERS' current assumed rate of investment return (7.50%) and, along with other factors (including future investment returns and contributions rates), may result in increased required contributions in the future.

The City's total contributions to the Miscellaneous Plan in fiscal years 2013-14, 2014-15, and 2015-16 were as follows:

<u>Fiscal Year</u>	<u>Total City Contribution</u>
2012-13	\$4,485,458
2013-14	5,159,458
2014-15	6,010,866

Funded Status. The following table sets forth the schedule of funding for the City's Miscellaneous Plan for the fiscal years ended June 30, 2013, 2014, and 2015.

<u>Valuation Date (June 30)</u>	<u>Accrued Liability</u>	<u>Market Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio ⁽¹⁾</u>	<u>Annual Covered Payroll</u>
2013	\$241,817,365	\$171,340,680	\$70,476,685	70.9%	\$26,272,389
2014	263,605,778	196,573,743	67,032,035	74.6	26,305,632
2015	277,184,137	196,886,250	80,297,887	71.0	27,740,948

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated August 2016.

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated August 2016.

Recent CalPERS Actions. At its June 15, 2013, meeting, CalPERS' Board of Administration (the "**Board of Administration**") approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The new amortization and smoothing policy was used for the first time in the June 30, 2013, actuarial valuations in setting employer contribution rates for fiscal year 2015-16.

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

On November 18, 2015, the CalPERS Board adopted a funding risk mitigation policy intended to incrementally lower its discount rate - its assumed rate of investment return - in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. The policy establishes a mechanism to reduce the discount rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing discount rate, currently 7.5%, by at least four percentage points. CalPERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns. More information about the funding risk mitigation policy can be accessed through CalPERS' web site at the following website address: <https://www.calpers.ca.gov/page/newsroom/calpers-news/2015/adopts-funding-risk-mitigation-policy>. *The reference to this Internet website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the District and is not incorporated in this Official Statement by reference.*

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 ("**PEPRA**"), which impacted various aspects of public retirement systems in the State, including the CalPERS programs. In general, PEPRA (i) increased the retirement age for public employees depending on job function, (ii) capped the annual pension benefit payouts for public employees hired after January 1, 2013, (iii) required public employees hired after January 1, 2013 to pay at least 50% of the costs of their pension benefits (as described in more detail below), (iv) required final compensation for public employees hired after January 1, 2013 to be determined based on the highest average annual pensionable compensation earned over a period of at least 36 consecutive months, and (v) attempted to address other perceived abuses in the public retirement systems in the State. PEPRA applies to all public employee retirement systems in the State, *except* the retirement systems of the University of California, and charter cities and charter counties whose pension plans are not governed by State law. PEPRA's provisions went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on or after that date; existing employees who are members of

employee associations, including employee associations of the District, have a five-year window to negotiate compliance with PEPRA through collective bargaining.

CalPERS has predicted that the impact of PEPRA on employees and employers, including the District and other employers in the CalPERS system, will vary, based on each employer's current level of benefits. As a result of the implementation of PEPRA, new members must pay at least 50% of the normal costs of the plan, which can fluctuate from year to year. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn.

The District is unable to predict the amount of future contributions it will have to make to CalPERS as a result of the implementation of PEPRA, and as a result of negotiations with its employee associations, or, notwithstanding the adoption of PEPRA, resulting from any legislative changes regarding the CalPERS employer contributions that may be adopted in the future.

Implementation of GASB No. 68 and GASB No. 71. In June 2012 and November 2013, the Governmental Accounting Standards Board issued Governmental Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (“**GASB Statement No. 68**”) and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* (“**GASB Statement No. 71**”), respectively. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions and improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

In particular, GASB Statement No. 68 requires a state or local government employer such as the District to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, GASB Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, GASB Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer that arise from other types of events. GASB Statement No. 68, as amended requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability and that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported only if it is practical to determine all such amounts.

As a result of the implementation of GASB Statement No. 68 and GASB No. 71 related to pensions, the City had a restatement of net position as of July 1, 2014 to recognize the net pension liability (as of July 1, 2013) in the amount of \$17,796,970 in the business-type activities and \$197,907,327 in the governmental activities. In addition, the governmental activities restatement of \$144,698,250 included the write-off and removal of the previously presented (in prior years) Net Pension Asset of \$28,486,501 (which is also required under GASB Nos. 68).

Other Post-Employment Retirement Benefits

General. In April 2004, the Governmental Accounting Standards Board (“**GASB**”) issued Statement No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans. Statement No. 43 establishes uniform financial reporting standards for post-employment healthcare and other nonpension benefits (“**OPEB**”) plans. The approach followed in Statement No. 43 is generally consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. Statement No. 43 is applicable to the District for the fiscal year ending June 30, 2009.

Subsequently, in June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to OPEB. Statement No. 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Statement No. 45’s provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

City Plan Description. The City provides retiree medical benefits under the CalPERS health plan, an agent multiple-employer public employee defined postemployment benefit plan, which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements.

Employees are eligible for retiree health benefits if they retire from the City on or after age 50 (unless disabled) and are eligible for a CalPERS pension. The benefits are available only to employees who retire from the City. Membership of the plan consisted of 520 eligible active employees and 249 enrolled eligible retirees at June 30, 2016. These amounts do not reflect current retirees not enrolled in the CalPERS health plan who are eligible to enroll in the plan at a later date.

Funding Policy. The contribution requirements of plan members and the City are established any may be amended by the City Council. The City must agree to make a defined monthly payment towards the cost of each retiree’s coverage. The required contribution is based on projected pay-as-you-go financing requirements effective January 1, 2007. The City’s contribution rates were \$125 and \$122 per month for each retiree for the calendar years ended 2016 and 2015, respectively. For the fiscal year ended June 30, 2016, the City contributed \$368,161 to the plan. Plan members receiving benefits contributed \$2,023,295 (approximately 84% of total premiums) through their required contribution.

Annual OPEB Cost and Net OPEB Obligation. The Annual Required Contribution (“**ARC**”) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the District’s annual OPEB cost for fiscal year 2015-16, the amount actually contributed to the plan, and changes in the District’s Net OPEB obligation:

	June 30, 2016
Annual Required Contribution (ARC)	\$1,299,589
Interest on Net OPEB Obligation	223,035
Adjustment to annual required contribution	(247,817)
Annual OPEB cost (expense)	1,274,807
Contributions Made	(368,161)
Increase in Net OPEB Obligation	906,646
Net OPEB Obligation, Beginning of Year	4,890,236
Net OPEB Obligation, End of Year	\$5,796,882

The District’s Retiree Health annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB liability for fiscal year 2015-16 and the three preceding years were as follows.

Fiscal Year Ended	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
6/30/2013	\$941,164	34.8%	\$3,330,851
6/30/2014	981,172	35.2	3,966,206
6/30/2015	1,345,861	26.4	4,956,339
6/30/2016	1,274,807	22.0	5,796,882

Funding Policy. As of June 30, 2015, the most recent actuarial valuation date, the Actuarial Accrued Liability for benefits was \$14,267,570. As of June 30, 2015, the Plan Assets were \$0, resulting in an Unfunded Actuarial Accrued Liability of \$14,267,570. The covered payroll was \$6,768,141, and the ratio of the Unfunded Actuarial Accrued Liability to the covered payroll was 210.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress is set forth below:

**CITY OF GARDEN GROVE
Trend Information for Retiree Health Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (b)/(a)	Covered Payroll	UAAL as a % of Covered Payroll
March 1, 2011	\$ --	\$10,272,641	\$10,272,641	0.0%	\$6,127,376	167.7%
March 1, 2013	--	10,633,859	10,633,859	0.0	6,528,958	162.9
March 1, 2015	--	14,267,570	14,267,570	0.0	6,768,141	210.8

Actuarial Methods and Assumptions. The actuarial cost method used for determining the benefit obligations is the entry age normal cost method. The actuarial assumptions included a 4.5 percent investment rate of return, which is based on assumed long-term investment

returns on plan assets and on the City’s assets, as appropriate, and an annual healthcare cost trend rate of 4 percent annual. Both rates included a 2.75 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 30 years using a closed amortization period. It is assumed the City’s payroll will increase 2.75 percent per year. The assumptions used for determining the contribution requirements are the same as the assumptions used in the calculation of the funded status.

Investment Policies and Procedures

The City manages the cash of the District and affiliated agencies on a pooled basis. Funds are invested in accordance with Section 53601 of the State government code and the District’s established investment policy (the “**Investment Policy**”). The City’s investment objectives as outlined in the Investment Policy are in the following order: safety of principal, liquidity, and yield. To meet these objectives, the City of Garden Grove attempts to obtain the highest yield on its investments consistent with the preservation of principal and liquidity.

**CITY OF GARDEN GROVE
Investment Portfolio as of June 30, 2016**

Description	Amount
U.S. Treasury	\$45,362,760
U.S. Agency Securities	
FHLB	37,477,720
FFCB	22,761,735
FNMA	40,392,550
Local Agency Investment Fund (LAIF)	63,402,236
Held by fiscal agent:	
Money Market Funds	17,173,035
 Total	 \$226,570,036

Source: *City of Garden Grove Comprehensive Annual Financial Report.*

APPENDIX E
FORM OF OPINION OF BOND COUNSEL

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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

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

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

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

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

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

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

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

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

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

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

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

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