



AGENDA

Garden Grove Sanitary District
Board of Directors

Tuesday, February 28, 2017

6:30 PM

Community Meeting Center - 11300
Stanford Avenue, Garden Grove, CA
92840

Kris Beard
President
John R. O'Neill
Vice President
Phat Bui
Member
Steven R. Jones
Member
Stephanie Klopfenstein
Member
Kim B. Nguyen
Member
Thu-Ha Nguyen
Member

Meeting Assistance: Any person requiring auxiliary aids and services, due to a disability, to address the Sanitary District should contact the City Clerk's Office 72 hours prior to the meeting to arrange for accommodations. Phone: 714) 741-5040.

Agenda Item Descriptions: Are intended to give a brief, general description of the item. The Sanitary District may take legislative action deemed appropriate with respect to the item and is not limited to the recommended action indicated in staff reports or the agenda.

Documents/Writings: Any revised or additional documents/writings related to an item on the agenda distributed to all or a majority of the Sanitary District Members within 72 hours of a meeting, are made available for public inspection at the same time (1) in the City Clerk's Office at 11222 Acacia Parkway, Garden Grove, CA 92840, during normal business hours; (2) on the City's website as an attachment to the Sanitary District meeting agenda; and (3) at the Council Chamber at the time of the meeting.

Public Comments: Members of the public desiring to address the Sanitary District are requested to complete a pink speaker card indicating their name and address, and identifying the subject matter they wish to address. This card should be given to the City Clerk prior to the start of the meeting. General comments are made during "Oral Communications", and should be limited to matters under consideration and/or what the Sanitary District has jurisdiction over. Persons wishing to address the Sanitary District regarding a Public Hearing matter will be called to the podium at the time the matter is being considered.

Manner of Addressing the Sanitary District: After being called by the President, you may approach the podium, it is requested that you state your name for the record, and proceed to address the Sanitary District. All remarks and questions should be addressed to the Sanitary District as a whole and not to individual Sanitary District Members or staff members. Any person making impertinent, slanderous, or profane remarks or who becomes boisterous while addressing the Sanitary District shall be called to order by the President. If such conduct continues, the President may order the person barred from addressing the Sanitary District any further during that meeting.

Time Limitation: Speakers must limit remarks for a total of (5) five minutes. When any group of persons wishes to address the Sanitary District on the same subject matter, the President may request

a spokesperson be chosen to represent the group, so as to avoid unnecessary repetition. At the Sanitary District's discretion, a limit on the total amount of time for public comments during Oral Communications and/or a further limit on the time allotted to each speaker during Oral Communications may be set.

PLEASE SILENCE YOUR CELL PHONES DURING THE MEETING.

AGENDA

Open Session

6:30 PM

ROLL CALL: MEMBER BUI, MEMBER JONES, MEMBER KLOPFENSTEIN, MEMBER K. NGUYEN, MEMBER T. NGUYEN, VICE PRESIDENT O'NEILL, PRESIDENT BEARD

1. ORAL COMMUNICATIONS (to be held simultaneously with other legislative bodies)

2. CONSENT ITEMS

(Consent Items will be acted on simultaneously with one motion unless separate discussion and/or action is requested by a Sanitary District Member.)

2.a. Receive and file the minutes from the meeting held on January 24, 2017.
(Action Item)

3. PUBLIC HEARINGS

(Motion to approve will include adoption of each Resolution unless otherwise stated.)

4. ITEMS FOR CONSIDERATION

4.a. Adoption of a Resolution authorizing the issuance of Revenue Refunding Bonds, Series 2017, to refund the Sanitary District Revenue Certificates of Participation (Sewer System Capital Improvement Program Series 2006).
(Action Item)

4.b. Adoption of a Resolution authorizing the General Manager to waive the formal bidding process to proceed with emergency repairs to sewer line and sink hole on Lenore Street, Garden Grove. (Cost: \$300,000) *(Action Item)*

5. MATTERS FROM THE PRESIDENT, BOARD MEMBERS AND GENERAL MANAGER

6. ADJOURNMENT

The next Regular Meeting will be held on Tuesday, March 28, 2017, at 6:30 p.m. in the Community Meeting Center, 11300 Stanford Avenue, Garden Grove, CA.

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

To: Scott C. Stiles From: Teresa Pomeroy
Dept.: General Manager Dept.: City Clerk
Subject: Receive and file the minutes Date: 2/28/2017
from the meeting held on
January 24, 2017. (*Action
Item*)

Attached are the minutes from the meeting held on January 24, 2017, recommended to be received and filed as submitted or amended.

ATTACHMENTS:

Description	Upload Date	Type	File Name
Minutes	2/23/2017	Backup Material	sd-min_01_24_2017.pdf

MINUTES

GARDEN GROVE SANITARY DISTRICT BOARD OF DIRECTORS

Regular Meeting

Tuesday, January 24, 2017

Community Meeting Center
11300 Stanford Avenue, Garden Grove, CA 92840

CONVENE MEETING

At 7:20 p.m., Vice President Beard convened the meeting in the A Room.

ROLL CALL PRESENT: (7) Vice President Beard, Members Bui, Jones,
Klopfenstein, K. Nguyen, T. Nguyen, O'Neill

ABSENT: (0) None

ORAL COMMUNICATIONS

Fire Chief Schultz spoke regarding the activation of the Emergency Operation Center due to heavy rainfall over the past weekend.

Speakers: Beatrice Jones; Lee Ostendorf; Lynn Aoki; Peter Katz, Tony Flores; Mark Parades; Alicia Medrano; Heidi Vargas; Leonel Cleto; Fernando Villasenor; Walter Muneton; Luis Zamora; Laura Kanter; Luis Gomez; Jose Guardado; Sabiha Khan; Leland Sisk; Julian Garcia; Nicholas Dibs; George Brietigam; Demian Garcia-Monroy; Gerald Dankner; Christopher Kim; Hector Navaro; Michael Verghis; Hoakan Spaberg; Charles Mitchell

RECESS

At 8:22 p.m., Vice President Beard declared a recess.

RECONVENE

At 9:08 p.m., Vice President Beard reconvened the meeting with all Members present.

REORGANIZATION

It was moved by Member O'Neill, seconded by Member T. Nguyen that:

Vice President Beard be selected as President.

The motion carried by a 7-0 vote as follows:

Ayes: (7) Beard, Bui, Jones, Klopfenstein, K. Nguyen, T.
Nguyen, O'Neill
Noes: (0) None

It was moved by Member Jones, seconded by Member T. Nguyen that:
Member O'Neill be selected as Vice President.

The motion carried by a 7-0 vote as follows:

Ayes: (7) Beard, Bui, Jones, Klopfenstein, K. Nguyen, T.
Nguyen, O'Neill
Noes: (0) None

MINUTES (F: Vault)

It was moved by Member K. Nguyen, seconded by Member O'Neill that:

The minutes from the meeting held on November 22, 2016, be received and filed.

The motion carried by a 7-0 vote as follows:

Ayes: (7) Beard, Bui, Jones, Klopfenstein, K. Nguyen, T.
Nguyen, O'Neill
Noes: (0) None

ADOTION OF RESOLUTIONS APPROVING A DEBT MANAGEMENT POLICY REQUIRED
BY SENATE BILL 1029 (JOINT ACTION WITH THE CITY COUNCIL)

Following staff presentation and Sanitary District/City Council discussion:

Sanitary District Action

It was moved by Member K. Nguyen, seconded by Member Jones that:

Resolution No. 3766-17 entitled, A Resolution of the Board of Directors of the
Garden Grove Sanitary District adopting a Debt Management Policy, be adopted.

The motion carried by a 7-0 vote as follows:

Ayes: (7) Beard, Bui, Jones, Klopfenstein, K. Nguyen, T.
Nguyen, O'Neill
Noes: (0) None

City Council Action

It was moved by Council Member Bui, seconded by Council Member K. Nguyen that:

Resolution No. 9408-17 entitled, A Resolution of the City Council of the City of Garden Grove adopting a Debt Management Policy, be adopted.

The motion carried by a 7-0 vote as follows:

Ayes: (7) Beard, O'Neill, T. Nguyen, Bui, Klopfenstein, K.
Nguyen, Jones
Noes: (0) None

ADJOURNMENT

At 9:10 p.m., President Beard adjourned the meeting. The next meeting is scheduled for Tuesday, February 28, 2017, at 6:30 p.m. at the Community Meeting Center, 11300 Stanford Avenue, Garden Grove, California.

Teresa Pomeroy, CMC
Secretary

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

To: Scott C. Stiles From: Kingsley Okereke
 Dept.: General Manager Dept.: Finance
 Subject: Adoption of a Resolution authorizing the issuance of Revenue Refunding Bonds, Series 2017, to refund the Sanitary District Revenue Certificates of Participation (Sewer System Capital Improvement Program Series 2006). (*Action Item*) Date: 2/28/2017

OBJECTIVE

The purpose of this report is to request that the Garden Grove Sanitary District Board (GGSD) adopt the attached Resolution authorizing the execution and delivery of Revenue Refunding Bonds, Series 2017 ("2017 Bonds") to refund the 2006 Sewer Revenue Certificates of Participation ("2006 COPs").

BACKGROUND

As part of the ongoing effort to implement budgetary savings and reduce costs, staff has determined that the GGSD's outstanding 2006 COPs could be refinanced for significant savings.

Issue	Original Amount	Outstanding Amount as of 02/01/2017	Final Maturity	Average Interest Rate Remaining	Call Features
2006 COPs	\$21,845,000	\$18,365,000	6/15/2036	4.91%	Any time at par

In 2006, the GGSD issued the 2006 COPs in the original amount of \$21.845 million. The 2006 COPs were issued to finance the rehabilitation, replacement, and improvement of the GGSD's wastewater collection system. The annual debt service payment is about \$1.46 million. The average annual interest rate is about 4.91 percent through 2036, the final maturity date. The 2006 COPs can be prepaid at any time at no penalty.

DISCUSSION

The purpose of the proposed refunding is to refinance the outstanding balance of the 2006 COPs at much lower interest rates. Hence, reduce annual debt service payments and enhance budget containment for the Sewer Enterprise Fund going forward. Given the current low interest rate environment, it is worthwhile for the GGSD to expedite completion of the proposed debt refunding before interest rates rise further. Staff worked with the City's Financial Advisor (Urban Futures) to prepare and advertise a Request for Proposal to select an underwriter. The underwriter will work with the financing team and lead the effort to market and sell the refunding bonds. A total of eight proposals were received and analyzed. It was determined that Stern Brothers & Co. provided the best proposal in terms of quality and cost and was selected for the refunding. The required and assembled bond financing team includes: the Financial Advisor (Urban Futures Incorporated "UFI"), Bond Counsel (Stradling, Yocca, Carlson & Rauth "SYCR"), Disclosure Counsel (Jones Hall), Underwriter (Stern Brothers & Co.), and Trustee (U.S. Bank National Association). Bond Counsel prepared the attached Resolution delineating authorization of the Revenue Refunding Bonds, Series 2017, to refund the 2006 COPs. The Resolution requires action by the GGSD to approve the issuance of the Revenue Refunding Bonds, Series 2017, to refund the 2006 COPs. It authorizes the execution and delivery by the GGSD of the necessary documents and related actions, and the distribution of the official statement in connection with the offering and sale of the 2017 Bonds. All other necessary documents (indenture, continuing disclosure certificate, bond purchase agreement, and official statement), in connection with the issuance of the Revenue Refunding Bonds, Series 2017, are provided in substantially completed form.

FINANCIAL IMPACT

The refunding of the 2006 COPs is expected to reduce the average annual interest cost by approximately 2.0 percent, from 4.91 percent to 2.90 percent, and is projected to reduce debt service by approximately \$250,000 annually through 2036. The net present value savings is expected to be \$3.2 million or 17.5 percent of outstanding 2006 COPs principal.

Current Average Annual Debt Service	New (Refunding) Average Annual Debt Service	Annual Savings*	Present Value Savings*	Present Value Savings Divided by Outstanding Principal	Current Final Maturity	Current Final Maturity
\$1,465,000	\$1,215,000	\$250,000	\$3,200,000	17.5%	2036	2036

*Estimated. Base on Interest rates as of February 10, 2017.

The estimated total costs of issuance are projected to be less than 2.0 percent of the total par amount of the 2017 Bonds. The costs of issuance funds will be used to compensate the various financing team members including the Underwriter, Financial Advisor, Bond Counsel, Disclosure Counsel, Trustee, Printer, Verification Agent, and other miscellaneous fees. The costs of issuance will be paid out of the proceeds of the bonds and have been incorporated in calculating all savings figures discussed above.

RECOMMENDATION

It is recommended that the Garden Grove Sanitary District Board:

- Adopt the attached Resolution authorizing the issuance of the Revenue Refunding Bonds, Series 2017; and
- Authorize the General Manager or his designee to enter into all necessary agreements and the related necessary documents for execution, delivery, and dissemination as applicable to finalize the issuance of the Revenue Refunding Bonds, Series 2017.

By: Alex Trinidad, Senior Accountant

ATTACHMENTS:

Description	Upload Date	Type	File Name
Attachment 1: Resolution	2/23/2017	Resolution Letter	GGSDResolution2017Refunding(2006_Bonds).pdf
Attachment 2: Indenture	2/23/2017	Backup Material	GGSDIndenture2017Refunding(2006Certificates).pdf
Attachment 3: Cont. Disclosure Cert.	2/23/2017	Backup Material	GGSDContinuingDisclosureCertificate.pdf
Attachment 4: Bond Purchase Agreement	2/23/2017	Backup Material	GGSDPurchaseContract.pdf
Attachment 5: GGSD POS Book	2/23/2017	Backup Material	GGSD_POS_Book.pdf

GARDEN GROVE SANITARY DISTRICT

RESOLUTION NO.

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE GARDEN GROVE SANITARY DISTRICT AUTHORIZING THE ISSUANCE OF REVENUE REFUNDING BONDS, SERIES 2017 TO REFUND THE GARDEN GROVE SANITARY DISTRICT REVENUE CERTIFICATES OF PARTICIPATION (SEWER SYSTEM CAPITAL IMPROVEMENT PROGRAM) SERIES 2006, AND APPROVING CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Garden Grove Sanitary District (the "District"), a sanitary district that is duly organized and existing under and pursuant to the Constitution and laws of the State of California, has determined to refinance the acquisition and construction of certain sewer system capital improvements (collectively, the "2006 Project") that are more particularly described in the 2006 Installment Purchase Agreement (as such term is defined below);

WHEREAS, the Garden Grove Public Financing Authority (the "Authority") has previously entered into an Installment Purchase Agreement with the District dated as of April 1, 2006 (the "2006 Installment Purchase Agreement") and caused the execution and delivery of the Garden Grove Sanitary District Revenue Certificates of Participation (Sewer System Capital Improvement Program) Series 2006 (the "2006 Certificates") to finance the acquisition and construction of the 2006 Project;

WHEREAS, the 2006 Certificates are secured by payments made by the District under the 2006 Installment Purchase Agreement;

WHEREAS, in order to accomplish the refinancing of the 2006 Project, the District desires to issue its Revenue Refunding Bonds, Series 2017 (the "2017 Bonds") pursuant to that certain Indenture of Trust (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee"), substantially in the form that is on file with the Secretary of the District;

WHEREAS, the District's obligation to pay the 2017 Bonds will be payable from Net Revenues of the Sewer System (as such terms are defined in the Indenture);

WHEREAS, the District will cause the 2006 Project to be refinanced through the prepayment of the 2006 Installment Purchase Agreement from proceeds of the 2017 Bonds;

WHEREAS, the Board of Directors desires to approve the form of a purchase agreement for the 2017 Bonds (the "Purchase Contract"), by and between the District and Stern Brothers & Co. (the "Underwriter"), pursuant to which the Underwriter will agree to purchase the 2017 Bonds on the terms and conditions that are set forth therein, substantially in the form that is on file with the Secretary of the District;

WHEREAS, the Board of Directors desires to approve the form of a Preliminary Official Statement in order to enable the Underwriter to market the 2017 Bonds, substantially in the form that is on file with the Secretary of the District; and

WHEREAS, the Board of Directors desires to approve the form of a Continuing Disclosure Certificate of the District, substantially in the form that is on file with the Secretary of the District.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE GARDEN GROVE SANITARY DISTRICT, as follows:

Section 1. The Indenture, in substantially the form that is on file with the Secretary of the District and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The President or Vice President of the Board of Directors of the District, the Secretary of the District, the General Manager or the designee of any of them (each, an "Authorized Officer") are each hereby authorized and directed to execute and deliver the Indenture with such changes, insertions and omissions as may be recommended by the General Counsel or Stradling Yocca Carlson & Rauth, a Professional Corporation, bond counsel to the District ("Bond Counsel"), and approved by the officers executing the same, said execution being conclusive evidence of such approval.

Section 2. The Board of Directors hereby authorizes the issuance, sale and delivery of the 2017 Bonds in accordance with the terms and provisions of the Indenture. The proceeds of the 2017 Bonds will be expended: (i) to refinance the 2006 Project; (ii) to fund a reserve fund, if required; and (iii) to pay the costs of issuance of the 2017 Bonds.

Section 3. The Purchase Contract, in substantially the form that is on file with the Secretary of the District and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The Authorized Officers and the Finance Director are each hereby authorized and directed to execute and deliver the Purchase Contract with such changes, insertions and omissions as may be recommended by the General Counsel or Bond Counsel and approved by the person executing the same, said execution being conclusive evidence of such approval; provided, however, that: (i) the net present value savings that are realized by refunding the 2006 Certificates from proceeds of the 2017 Bonds shall be no less than 3%; and (ii) the underwriting discount for the 2017 Bonds shall not exceed 0.324% of the aggregate principal amount of the 2017 Bonds.

Section 4. U.S. Bank National Association is hereby appointed as Trustee on behalf of the owners of the 2017 Bonds, with the duties and powers of such Trustee as set forth in the Indenture.

Section 5. The General Manager and the Finance Director or the designee of either of them are authorized to reject any terms presented by the Underwriter if

determined not to be in the best interest of the District, and the General Manager and the Finance Director or the designee of either of them are further authorized to evaluate whether the purchase of municipal bond insurance or a debt service reserve policy for the 2017 Bonds will result in a net savings to the District and, if so, to arrange for the purchase of such municipal bond insurance or debt service reserve policy.

Section 6. The preparation and distribution of the Preliminary Official Statement, in substantially the form that is on file with the Secretary of the District is hereby approved. The Authorized Officers are each hereby authorized to make such changes, insertions and omissions to the Preliminary Official Statement as may be recommended by the General Counsel or Bond Counsel, and the Authorized Officers and the Finance Director are each hereby authorized to sign a certificate deeming the Preliminary Official Statement final for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934. Upon execution of such certificate, the Underwriter is hereby authorized to distribute copies of said Preliminary Official Statement to persons who may be interested in the initial purchase of the 2017 Bonds. The Authorized Officers are each hereby authorized and directed to execute, approve and deliver the final Official Statement in the form of the Preliminary Official Statement, which, upon execution as authorized below, is made a part hereof as though set forth in full herein, with such changes, insertions and omissions as may be recommended by the General Counsel or Bond Counsel and approved by the officer executing the same, said execution being conclusive evidence of such approval. The Underwriter is directed to deliver copies of any final Official Statement to all actual initial purchasers of the 2017 Bonds.

Section 7. The Continuing Disclosure Certificate of the District, in substantially the form that is on file with the Secretary of the District and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The Authorized Officers are each hereby authorized and directed to execute and deliver the Continuing Disclosure Certificate with such changes, insertions and omissions as may be recommended by the General Counsel or Bond Counsel and approved by the person executing the same, said execution being conclusive evidence of such approval.

Section 8. The legal services agreement with Jones Hall, A Professional Law Corporation, disclosure counsel in connection with the 2017 Bonds, in substantially the form that is on file with the Secretary of the District and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The Authorized Officers are each hereby authorized and directed to execute and deliver the legal services agreement with such changes, insertions and omissions as may be recommended by the General Counsel and approved by the

person executing the same, said execution being conclusive evidence of such approval.

Section 9. The Authorized Officers and all other officers of the District are hereby authorized, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary and advisable in order to consummate the sale and delivery of the 2017 Bonds and otherwise effectuate the purposes of this Resolution, including, but not limited to, working with the Authority and the trustee for the 2006 Certificates to cause the redemption of the 2006 Certificates, including but not limited to the preparation of an escrow agreement for the 2006 Certificates, if required, and any such actions that were previously taken by such officers are hereby ratified and confirmed. Each of the Authorized Officers is hereby authorized to solicit bids from municipal bond insurers, to select an insurer to provide municipal bond insurance with respect to the 2017 Bonds and a debt service reserve policy, if applicable, and to execute and negotiate any agreements that are necessary in connection with the procurement of such municipal bond insurance or debt service reserve policy, if such municipal bond insurance or debt service reserve policy provides debt service savings or other benefits to the proposed transaction, as determined by the District. The District's execution of an insurance commitment shall be conclusive evidence of such determination. Each of the above-referenced officers is hereby authorized to direct Bond Counsel and/or the General Counsel to make any necessary revisions to the legal documents to effectuate the procurement of municipal bond insurance and/or a debt service reserve fund policy. In the event that the President of the Board of Directors is unavailable or unable to execute and deliver any of the above-referenced documents, any other member of the Board of Directors may validly execute and deliver such document, and, in the event that the Secretary of the District is unavailable or unable to execute and deliver any of the above-referenced documents, any deputy secretary may validly execute and deliver such document. Expenditures of net proceeds of the 2017 Bonds to refinance the 2006 Project shall be subject to compliance by the District with all legal and other conditions precedent thereto.

Section 10. This Resolution shall take effect from and after its date of adoption.

INDENTURE OF TRUST

Dated as of March 1, 2017

by and between

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee**

and the

GARDEN GROVE SANITARY DISTRICT

Relating to

**\$ _____
GARDEN GROVE SANITARY DISTRICT
REVENUE REFUNDING BONDS, SERIES 2017**

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01.	Definitions	2
Section 1.02.	Content of Certificates and Opinions.....	14
Section 1.03.	Interpretation.....	14

ARTICLE II

THE 2017 BONDS

Section 2.01.	Authorization of 2017 Bonds.....	15
Section 2.02.	Terms of the 2017 Bonds.....	15
Section 2.03.	Transfer of 2017 Bonds	16
Section 2.04.	Exchange of 2017 Bonds	16
Section 2.05.	Registration Books.....	16
Section 2.06.	Form and Execution of 2017 Bonds	17
Section 2.07.	2017 Bonds Mutilated, Lost, Destroyed or Stolen.....	17
Section 2.08.	Book Entry System	18

ARTICLE III

ISSUANCE OF 2017 BONDS; APPLICATION OF PROCEEDS

Section 3.01.	Issuance of the 2017 Bonds	20
Section 3.02.	Application of Proceeds of the 2017 Bonds	20
Section 3.03.	Establishment and Application of Costs of Issuance Fund.....	20
Section 3.04.	Validity of 2017 Bonds.....	21

ARTICLE IV

REDEMPTION OF 2017 BONDS

Section 4.01.	Terms of Redemption	21
Section 4.02.	Selection of 2017 Bonds for Redemption.....	21
Section 4.03.	Notice of Redemption.....	22
Section 4.04.	Partial Redemption of 2017 Bonds.....	22
Section 4.05.	Effect of Redemption.....	22

ARTICLE V

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Section 5.01.	Pledge and Assignment; Revenue Fund	23
Section 5.02.	Allocation of Revenues.....	24
Section 5.03.	[Reserved].....	25
Section 5.04.	Application of Interest Account.....	25

TABLE OF CONTENTS
(continued)

	<u>Page</u>
Section 5.05.	Application of Principal Account 25
Section 5.06.	Application of Redemption Fund 25
Section 5.07.	Investments 25
Section 5.08.	Rebate Fund 26
Section 5.09.	Rate Stabilization Fund 27
Section 5.10.	Application of Funds and Accounts When No 2017 Bonds are Outstanding 28

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01.	Punctual Payment 28
Section 6.02.	Extension of Payment of 2017 Bonds 28
Section 6.03.	Against Encumbrances 28
Section 6.04.	Power to Issue 2017 Bonds and Make Pledge and Assignment 29
Section 6.05.	Accounting Records and Financial Statements 29
Section 6.06.	Tax Covenants 29
Section 6.07.	Waiver of Laws 30
Section 6.08.	Further Assurances 30
Section 6.09.	Budgets 30
Section 6.10.	Observance of Laws and Regulations 30
Section 6.11.	Compliance with Contracts 31
Section 6.12.	Prosecution and Defense of Suits 31
Section 6.13.	Continuing Disclosure 31
Section 6.14.	Additional Contracts and Bonds 32
Section 6.15.	Against Sale or Other Disposition of Property 32
Section 6.16.	Against Competitive Facilities 33
Section 6.17.	Maintenance and Operation of the Sewer System 33
Section 6.18.	Payment of Claims 33
Section 6.19.	Insurance 33
Section 6.20.	Payment of Taxes and Compliance with Governmental Regulations 34
Section 6.21.	Amount of Rates and Charges 34
Section 6.22.	Collection of Rates and Charges 35
Section 6.23.	Eminent Domain Proceeds 35
Section 6.24.	Enforcement of Contracts 35

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF 2017 BOND OWNERS

Section 7.01.	Events of Default 36
Section 7.02.	Remedies Upon Event of Default 36
Section 7.03.	Application of Revenues and Other Funds After Default 37
Section 7.04.	Trustee to Represent 2017 Bond Owners 38
Section 7.05.	2017 Bond Owners' Direction of Proceedings 38
Section 7.06.	Suit by Owners 39
Section 7.07.	Absolute Obligation of the District 39
Section 7.08.	Remedies Not Exclusive 39

TABLE OF CONTENTS
(continued)

	<u>Page</u>
Section 7.09. No Waiver of Default	39
 ARTICLE VIII THE TRUSTEE	
Section 8.01. Duties, Immunities and Liabilities of Trustee	40
Section 8.02. Merger or Consolidation.....	41
Section 8.03. Liability of Trustee	41
Section 8.04. Right to Rely on Documents.....	44
Section 8.05. Preservation and Inspection of Documents	44
Section 8.06. Compensation and Indemnification.....	44
 ARTICLE IX MODIFICATION OR AMENDMENT OF THE INDENTURE	
Section 9.01. Amendments Permitted	44
Section 9.02. Effect of Supplemental Indenture.....	46
Section 9.03. Endorsement of 2017 Bonds; Preparation of New 2017 Bonds	46
Section 9.04. Amendment of Particular 2017 Bonds	46
 ARTICLE X DEFEASANCE	
Section 10.01. Discharge of Indenture	46
Section 10.02. Discharge of Liability on 2017 Bonds.....	47
Section 10.03. Deposit of Money or Securities with Trustee	47
Section 10.04. Payment of 2017 Bonds After Discharge of Indenture.....	48
 ARTICLE XI MISCELLANEOUS	
Section 11.01. Liability of District Limited to Revenues.....	48
Section 11.02. Successor Is Deemed Included in All References to Predecessor	49
Section 11.03. Limitation of Rights to Parties and 2017 Bond Owners.....	49
Section 11.04. Waiver of Notice; Requirement of Mailed Notice.....	49
Section 11.05. Destruction of 2017 Bonds	49
Section 11.06. Severability of Invalid Provisions	49
Section 11.07. Notices	49
Section 11.08. Evidence of Rights of 2017 Bond Owners	50
Section 11.09. Disqualified 2017 Bonds	50
Section 11.10. Money Held for Particular 2017 Bonds.....	50
Section 11.11. Funds and Accounts.....	50
Section 11.12. Waiver of Personal Liability.....	51
Section 11.13. Execution in Several Counterparts	51

TABLE OF CONTENTS
(continued)

	<i>Page</i>
Section 11.14. CUSIP Numbers	51
Section 11.15. Choice of Law.....	51
Section 11.16. Paired Obligation Provider Guidelines.....	51
Signatures	S-1
Exhibit A Form of 2017 Bond.....	A-1

INDENTURE OF TRUST

THIS INDENTURE OF TRUST is made and entered into and dated as of March 1, 2017 (the “Indenture”), by and between the GARDEN GROVE SANITARY DISTRICT, a special district that is duly organized and existing under the laws of the State of California (the “District”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association that is duly organized and existing under the laws of the United States of America, as trustee hereunder (the “Trustee”).

RECITALS

A. The District has determined that it is in the best interest of the public to prepay and defease that certain Installment Purchase Agreement, dated as of April 1, 2006 (the “2006 Installment Purchase Agreement”), by and between the District and the Garden Grove Public Financing Authority (the “Authority”).

B. The District is authorized by Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, to issue bonds for the purpose of refunding any evidences of indebtedness of the District.

C. In order to provide for the authentication and delivery of refunding revenue bonds (the “2017 Bonds”), to establish and declare the terms and conditions upon which such 2017 Bonds are to be issued and secured and to secure the payment of the principal thereof and interest and premium, if any, thereon, the District has authorized the execution and delivery of the Indenture.

D. The District has determined that all acts and proceedings that are required by law and necessary to make the 2017 Bonds, when executed by the District, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal special obligations of the District, and to cause the Indenture to be a valid and binding agreement for the uses and purposes that are set forth herein in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture have been in all respects duly authorized.

GRANTING CLAUSES

The District, in consideration of the premises and the acceptance by the Trustee of the trusts that are created hereby, the mutual covenants that are contained herein and the purchase and acceptance of the 2017 Bonds by the owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of and the interest and premium (if any) on all 2017 Bonds at any time issued and Outstanding under the Indenture, according to their terms, and to secure the performance and observance of all of the covenants and conditions that are set forth therein and herein, does hereby assign and pledge unto, and grant a security interest in, the following (the “Trust Estate”) to the Trustee, and its successors in trust and assigns forever, for the securing of the performance of the obligations of the District to the 2017 Bond Owners hereinafter set forth:

FIRST

All right, title and interest of the District in and to the Revenues (as such term is defined herein), including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect and receive any Revenues that are payable to or receivable by the

District under the Constitution of the State, the Government Code of the State, the Indenture and any other applicable laws of the State or otherwise, to bring actions and proceedings thereunder for the enforcement thereof, and to do any and all things which the District is or may become entitled to do thereunder, subject to the terms hereof.

SECOND

All moneys and securities that are held in funds and accounts of the Indenture, except amounts held in the Rebate Fund and the Rate Stabilization Fund, if established (other than those amounts that are transferred by the District from the Rate Stabilization Fund (if established) to the Revenue Fund), and all other rights of every name and nature from time to time herein or hereafter by delivery or by writing of any kind pledged, assigned or transferred as and for additional security hereunder to the Trustee by the District or by anyone on its behalf, or with its written consent, and to hold and apply the same, subject to the terms hereof.

The Trust Estate shall be held by the Trustee and its respective successors in trust and assigns forever for the benefit of the Owners, and such pledge shall constitute a lien on and security interest in such Trust Estate.

The Trust Estate shall be held by the Trustee upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the 2017 Bonds that are issued under and secured by the Indenture without privilege, priority or distinction as to the lien or otherwise of any of the 2017 Bonds over any of the other 2017 Bonds.

PROVIDED, HOWEVER, that if the District, its successors or assigns shall pay, or cause to be paid, the principal of and interest and any redemption premium on the 2017 Bonds due or to become due thereon, at the times and in the manner provided in the 2017 Bonds according to the true intent and meaning thereof, keep, perform and observe all of the covenants and conditions of the Indenture to be kept, performed and observed by it, and pay or cause to be paid to Trustee all sums of money due or to become due in accordance with the terms and provisions hereof, then upon such final payments or deposits as herein provided, the Indenture and the rights hereby granted shall cease, terminate and be void; otherwise the Indenture shall remain in full force and effect.

It is expressly declared that all 2017 Bonds issued and secured hereunder are to be issued, authenticated and delivered, and all sold property, rights and interests, including, without limitation, the Revenues, hereby assigned and pledged, are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the District has agreed and covenanted and does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the 2017 Bonds, as follows:

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 will, for all purposes of the Indenture and of any indenture supplemental to the Indenture and of any certificate, opinion or other document mentioned in the Indenture, have the

meanings specified in the Indenture, to be equally applicable to both the singular and plural forms of any of the terms defined in the Indenture.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Authority. The term "Authority" means the Garden Grove Public Financing Authority, a joint powers authority that is duly organized and existing under and by virtue of the laws of the State.

Authorized Representative. The term "Authorized Representative" means, with respect to the District, the President of the Board of Directors, the Secretary, the City Manager of the City, the Finance Director of the City or any other person designated as an Authorized Representative of the District by a Certificate of the District signed by the President of the Board of Directors, the Secretary, the City Manager of the City or the Finance Director of the City and filed with the Trustee.

Bond Counsel. The term "Bond Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bonds. The term "Bonds" means all revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are payable from Net Revenues on a parity with the 2017 Bonds and which are secured by a pledge of and lien on Revenues as described in Section 5.01.

Bond Year. The term "Bond Year" means the period beginning on the date of issuance of the 2017 Bonds and ending on June 15, 2017, and each successive one year or, during the last period prior to maturity or the last period prior to redemption of all 2017 Bonds Outstanding at such time, shorter period thereafter, until there are no Outstanding 2017 Bonds.

Business Day. The term "Business Day" means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed; or (ii) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms "Certificate," "Direction," "Request" and "Requisition" of the District mean a written certificate, direction, request or requisition signed in the name of the District by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument will include the statements provided for in Section 1.02.

City. The term "City" means the City of Garden Grove, a municipal corporation and general law city that is duly organized and existing under and by virtue of the laws of the State.

Closing Date. The term "Closing Date" means the date on which the 2017 Bonds are delivered to the original purchaser thereof.

Code. The term "Code" means the Internal Revenue Code of 1986, as amended.

Continuing Disclosure Certificate. The term “Continuing Disclosure Certificate” means the Continuing Disclosure Certificate of the District relating to the 2017 Bonds, dated the Closing Date, as originally executed or as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term “Contracts” means all contracts of the District previously or later authorized and executed by the District, the payments under which are payable from Net Revenues on a parity with the 2017 Bonds and which are secured by a pledge and lien on Revenues as described in Section 5.01; but excluding contracts entered into for operation and maintenance of the Sewer System.

Costs of Issuance. The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District and related to the authorization, issuance, sale and delivery of the 2017 Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, letter of credit fees, bond insurance premiums and reserve surety premiums (if any), fees and charges of the 2006 Trustee and verification agent, fees and charges for preparation, execution and safekeeping of the 2017 Bonds and any other cost, charge or fee in connection with the original issuance of the 2017 Bonds.

Costs of Issuance Fund. The term “Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.03.

Debt Service. The term “Debt Service” means, for any period of calculation, the sum of:

(1) the interest payable during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

(2) those portions of the principal amount of all outstanding serial Bonds maturing in such period;

(3) those portions of the principal amount of all outstanding term Bonds required to be redeemed or paid in such period; and

(4) those portions of the Contracts on which payments are required to be made during such period, (except to the extent that the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Contracts;

provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest at a fixed rate equal to the higher of:

(i) the then current variable interest rate borne by such Bonds or Contracts plus 1%; and

(ii) the highest variable rate borne over the preceding 24 months by outstanding variable rate debt issued by the District or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index comparable to that to be utilized in determining the interest rate for the debt then proposed to be issued;

provided further, that if twenty-five percent (25%) or more of the aggregate principal amount of any series or issue of such Bonds or Contracts is due in any one year, Debt Service will be determined for the period of determination as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further, that as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which such discount accretes with respect to such Bonds or Contracts or portions thereof, such accreted discount will be treated as interest in the calculation of Debt Service; and

provided further, that if the Bonds or Contracts constitute Paired Obligations, the interest rate on such Bonds or Contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the District with respect to such Paired Obligations, but only if the applicable Paired Obligations satisfy the requirements set forth in Section 11.16; and

provided further, that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established, and to the extent that the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

Depository; DTC. The term “Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as securities depository for the 2017 Bonds.

District. The term “District” means the Garden Grove Sanitary District, a special district duly organized and existing under and by virtue of the laws of the State.

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

Federal Securities. The term “Federal Securities” means any non-callable direct obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America).

Fiscal Year. The term “Fiscal Year” means the twelve month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve month period later selected and designated as the official fiscal year period of the District.

Generally Accepted Accounting Principles. The term “Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Indenture. The term “Indenture” means this Indenture of Trust, dated as of March 1, 2017, by and between the District and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, each of whom is independent of the District pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the District, which may, for purposes of the certification described in the definition of “Paired Obligations” be an interest rate swap adviser, and who, or each of whom: (i) is in fact independent and not under domination of the District; (ii) does not have any substantial interest, direct or indirect, with the District; and (iii) is not connected with the District as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the District may specify in a certificate to the Trustee and as the Trustee may select.

Initial Rating Requirement. The term “Initial Rating Requirement” means the rating requirement described in Section 11.16(a).

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

Interest Payment Date. The term “Interest Payment Date” means [June 15, 2017] and each June 15 and December 15 thereafter.

Investment Agreement. The term “Investment Agreement” means an investment agreement by a provider, supported by appropriate opinions of counsel; provided that, without limiting the foregoing, any such Investment Agreement must: (i) be from a provider rated by S&P at “A-” or “A3”, respectively, or above; (ii) require the District to terminate such agreement and immediately reinvest the proceeds thereof in other Permitted Investments if the rating assigned to such provider by S&P falls to “BBB+” or “Baa1”, respectively, or below; and (iii) expressly permit the withdrawal, without penalty, of any amounts necessary at any time to fund any deficiencies on account of debt

service requirements with respect to the 2017 Bonds, together with such amendments as may be approved by the District and the Trustee from time to time.

Letter of Representations. The term “Letter of Representations” means the letter of the District delivered to and accepted by the Depository on or prior to delivery of the 2017 Bonds as book entry bonds setting forth the basis on which the Depository serves as depository for such book entry bonds, as originally executed or as it may be supplemented, revised or replaced by a letter from the District delivered to and accepted by the Depository.

Minimum Rating Requirement. The term “Minimum Rating Requirement” means the rating requirement described in Section 11.16(b).

Net Proceeds. The term “Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Net Revenues. The term “Net Revenues” means, for any period, the Revenues for such period less the Operation and Maintenance Costs for such period. When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues will include all interest or gain derived from the investment of amounts in any of such funds or accounts.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.08.

Office. The term “Office” means with respect to the Trustee, the principal corporate trust office of the Trustee at 633 West Fifth Street, 24th Floor, Los Angeles, California 90071, Re: Garden Grove Sanitary District Series 2017, or such other or additional offices as may be specified in writing by the Trustee to the District, except that, with respect to the presentation of 2017 Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means costs spent or incurred for maintenance and operation of the Sewer System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Sewer System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Sewer System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than debt service payments) required to be paid by it to comply with the terms of the 2017 Bonds, this Indenture, any Contract or any resolution or indenture authorizing the issuance of any Bonds or of such Bonds; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and all capital charges and any amounts transferred to the Rate Stabilization Fund, if established.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2017 Bonds, means (subject to the provisions of Section 11.09) all 2017 Bonds theretofore or

thereupon being authenticated and delivered by the Trustee under the Indenture except: (i) 2017 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2017 Bonds with respect to which all liability of the District has been discharged in accordance with Section 10.02, including 2017 Bonds (or portions thereof) described in Section 11.09; and (iii) 2017 Bonds subject to transfer or exchange, or in lieu of or in substitution for which other 2017 Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2017 Bond Owner. The term “Owner” or “2017 Bond Owner,” whenever used in the Indenture with respect to a 2017 Bond, means the person in whose name the ownership of such 2017 Bond is registered on the Registration Books.

Paired Obligation Provider. The term “Paired Obligation Provider” means a party to a Paired Obligation other than the District.

Paired Obligations. The term “Paired Obligations” means any Bond or Contract (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, which are simultaneously issued or executed and delivered: (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates and in the same amounts; and (ii) the interest rates which, taken together, are reasonably expected to result in a fixed interest rate obligation of the District for the term of such Bond or Contract, as certified by an Independent Financial Consultant in writing, and which comply with the provisions of Section 11.16.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry certificates as securities depository.

Payment Fund. The term “Payment Fund” means the fund by that name established pursuant to Section 5.02.

Permitted Investments. The term “Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein. The Trustee is entitled to rely upon the written investment direction of the District as a representation that such investment constitutes a legal investment under the laws of the State.

(a) for all purposes, including but not limited to defeasance investments in refunding escrow accounts: (1) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in part (2) below); and (2) Federal Securities; and

(b) for all purposes other than defeasing investments in a refunding escrow account:

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

ownership

(i) U. S. Export-Import Bank

Direct obligations or fully guaranteed certificates of beneficial

(ii) Farmers Home Administration (FmHA)

Certificates of beneficial ownership

(iii) Federal Financing Bank

(iv) Federal Housing Administration Debentures (FHA)

(v) General Services Administration

Participation certificates

(vi) Government National Mortgage Association

GNMA-guaranteed mortgage-backed bonds

GNMA-guaranteed pass-through obligations

(vii) U.S. Maritime Administration

Act of 1972)

Guaranteed Title XI financing (qualified under the Ship Financing

(viii) U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Authority Bonds

debentures

New Communities Debentures – U.S. government guaranteed

public housing notes and bonds

U.S. Public Housing Notes and Bonds – U.S. government guaranteed

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System

Senior debt obligations

(ii) Federal Home Loan Mortgage Corporation

Participation certificates

Senior debt obligations

(iii) Federal National Mortgage Association

Mortgage-backed securities and senior debt obligations

(iv) Resolution Funding Corp. obligation

(v) Farm Credit System

Consolidated systemwide bonds and notes

(3) Money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAAm” or “AAm” (including those of the Trustee and its affiliates).

(4) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above and having a maturity of one year or less. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral.

(5) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC (including those of the Trustee and its affiliates), including BIF and SAIF.

(6) Investment agreements, including guaranteed investment contracts, acceptable to the Insurer.

(7) Commercial paper rated, at the time of purchase, “A-1+” or better by S&P.

(8) Bonds or notes issued by any state or municipality which are rated by S&P in one of the two highest rating categories assigned by such agencies.

(9) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured or unguaranteed obligation rating of “A-1+” or better by S&P.

(10) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date or dates.

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

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

Rate Stabilization Fund. The term “Rate Stabilization Fund” means the fund by that name that is described in Section 5.09.

Rating. The term “Rating” means any currently effective rating on the 2017 Bonds issued by a Rating Agency.

Rating Agencies. The term “Rating Agencies” means S&P and any other nationally recognized statistical rating organization then rating the 2017 Bonds.

Rebate Fund. The term “Rebate Fund” means the fund by that name established pursuant to Section 5.08.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the first day of the calendar month in which such Interest Payment Date falls, whether or not such day is a Business Day.

Redemption Date. The term “Redemption Date” means the date fixed for an optional redemption prior to maturity of the 2017 Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to Section 5.06.

Redemption Price. The term “Redemption Price” means, with respect to any 2017 Bond (or portion thereof), the principal amount of such 2017 Bond (or portion) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such 2017 Bond and the Indenture.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2017 Bonds pursuant to Section 2.05.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time are such officers, respectively, with responsibility for the administration of the Indenture.

Revenue Fund. The term “Revenue Fund” means the Sewage Collection Fund of the District, or such other enterprise fund of the District in which Revenues are deposited.

Revenues. The term “Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Sewer System, including, without limiting

the generality of the foregoing: (1) all income, rents, rates, fees, charges or other moneys derived by the District from the collection, (and, if applicable treatment and disposal of wastewater) or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Sewer System; (2) the proceeds of any stand-by or sewer availability charges, development fees and connection charges collected by the District with respect to the Sewer System; (3) to the extent allowed by law, all property taxes received by the District and allocated by the District in any Fiscal Year to the Sewer System; (4) the earnings on and income derived from the investment of amounts described in clauses (1), (2) and (3) above, including District Sewer System reserves and the Revenue Stabilization Fund; but excluding: (x) customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District; (y) any proceeds of taxes or assessments restricted by law to be used by the District to pay bonds or other obligations heretofore or hereafter issued; and (z) revenues of any Sewer System acquired through merger, consolidation or similar action to the extent the exclusion of such acquired Sewer System is required pursuant to the terms of such merger, consolidation or similar action.

“Revenues” also include all amounts transferred from the Rate Stabilization Fund, if such a fund is established, to the Revenue Fund during any Fiscal Year in accordance with Section 5.09 and do not include any amounts transferred from the Revenue Fund to the Rate Stabilization Fund, if such a fund is established, during any Fiscal Year in accordance with Section 5.01(b)(iii).

S&P. The term “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a Written Request of the District deliver to the Trustee.

Sewer Service. The term “Sewer Service” means the sewer collection and transmission service and treatment and disposal service, if any, made available or provided by the Sewer System.

Sewer System. The term “Sewer System” means 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.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture later duly authorized and entered into between the District and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date concerning certain matters pertaining to the use and investment of proceeds of the 2017 Bonds, including any and all exhibits attached thereto.

Term 2017 Bonds. The term “Term 2017 Bonds” means those 2017 Bonds that are described in Section 4.01(b).

Trustee. The term “Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, or its successor as Trustee under the Indenture as provided in Section 8.01.

2006 Installment Purchase Agreement. The term “2006 Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of April 1, 2006, by and between the District and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

2006 Trustee. The term “2006 Trustee” means U.S. Bank National Association, as trustee under the Trust Agreement, dated as of April 1, 2006, by and among the District, the Authority and the 2006 Trustee.

2017 Bonds. The term “2017 Bonds” means the Garden Grove Sanitary District Revenue Refunding Bonds, Series 2017 issued by the District and at any time Outstanding pursuant to the Indenture.

Valuation Date. “Valuation Date” means the fifth Business Day preceding the date of redemption.

Value. The term “Value,” which will be determined as of the end of each month, means that the value of any investments will be calculated as follows:

(a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund will be valued at fair market value. The Trustee will determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Bank of America Merrill Lynch and Morgan Stanley Smith Barney.

(b) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest.

(c) As to any investment not specified above: market value, or, if the market value is not ascertainable by the District or the Trustee, at cost.

Written Consent of the District; Written Order of the District; Written Request of the District; Written Requisition of the District. The terms “Written Consent of the District,” “Written Order of the District,” “Written Request of the District” and “Written Requisition of the District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of the District by an Authorized Representative or by any person (whether or not a member of the District’s Board of Directors) who is specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Section 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture, except the certificate of destruction provided for in Section 11.05, with respect to compliance with any provision of the Indenture must include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions in the Indenture relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter referred to in the instrument to which his or her signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the District may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Independent Certified Public Accountant or Independent Financial Consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Independent Certified Public Accountant or Independent Financial Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the District) upon a certificate or opinion of or representation by an officer of the District, unless such counsel, Independent Certified Public Accountant or Independent Financial Consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the District, or the same counsel or Independent Certified Public Accountant or Independent Financial Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Indenture, but different officers, counsel or Independent Certified Public Accountants or Independent Financial Consultants may certify to different matters, respectively.

Section 1.03. Interpretation.

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

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

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

ARTICLE II

THE 2017 BONDS

Section 2.01. Authorization of 2017 Bonds. The District hereby authorizes the issuance under the Indenture from time to time of the 2017 Bonds, which constitute special obligations of the District, for the purpose of prepaying all amounts payable under the 2006 Installment Purchase Agreement. The 2017 Bonds are hereby designated the “Garden Grove Sanitary District Revenue Refunding Bonds, Series 2017” in the aggregate principal amount of \$____. The Indenture constitutes a continuing agreement with the Owners from time to time of the 2017 Bonds to secure the full payment of the principal of and interest and premium (if any) on all of the 2017 Bonds, subject to the covenants, provisions and conditions contained in the Indenture.

Section 2.02. Terms of the 2017 Bonds. The 2017 Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. The 2017 Bonds will mature on June 15 in each of the years and in the amounts set forth below and will bear interest on each Interest Payment Date at the rates set forth below:

<i>Maturity Date (June 15)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
2017	\$	%
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		
2032		
2033		
2034		
2035		
2036		

Interest on the 2017 Bonds will be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books (except that in the case of an Owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such Owner’s option, be made 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 Record Date). Principal of and premium (if any) on any 2017 Bond will be paid by check of the Trustee upon presentation and surrender thereof at maturity or upon the prior redemption thereof, at the Office of the Trustee. Both the principal of and interest and premium (if any) on the 2017 Bonds will be payable in lawful money of the United States of America.

Each 2017 Bond will be dated the date of initial delivery, and will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it 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 date of initial delivery; provided, however, that if, as of the date of authentication of any 2017 Bond, interest thereon is in default, such 2017 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest on the 2017 Bonds will be calculated on the basis of a 360 day year composed of twelve 30 day months.

Section 2.03. Transfer of 2017 Bonds. Any 2017 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2017 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 2017 Bond during the period in which the Trustee is selecting 2017 Bonds for redemption and any 2017 Bond that has been selected for redemption.

Whenever any 2017 Bond or 2017 Bonds are surrendered for transfer, the District will execute and the Trustee will authenticate and deliver a new 2017 Bond or 2017 Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the 2017 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 2017 Bonds, the Trustee will cancel and destroy the 2017 Bonds that it has received.

Section 2.04. Exchange of 2017 Bonds. 2017 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 2017 Bond during the period in which the Trustee is selecting 2017 Bonds for redemption or any 2017 Bond that has been selected for redemption. The Trustee will require the 2017 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 2017 Bonds, the Trustee will cancel and destroy the 2017 Bonds that it has received.

Section 2.05. Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2017 Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the District and the Owners; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register, transfer or cause to be registered or transferred, on such records, the ownership of the 2017 Bonds as provided in the Indenture.

The person in whose name any 2017 Bond is registered will be deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest on and principal and Redemption Price of by such 2017 Bonds will be made only to or upon the order in writing of such

registered Owner, which payments will be valid and effectual to satisfy and discharge liability upon such 2017 Bond to the extent of the sum or sums so paid.

Section 2.06. Form and Execution of 2017 Bonds. The 2017 Bonds will be in substantially the form set forth in Exhibit A. The 2017 Bonds will be executed in the name and on behalf of the District with the manual or facsimile signature of its President or Vice President. The 2017 Bonds may carry a seal, and such seal may be in the form of a facsimile of the District's seal and may be reproduced, imprinted or impressed on the 2017 Bonds. The 2017 Bonds will be delivered to the Trustee for authentication. In case any of the officers who have signed or attested any of the 2017 Bonds cease to be such officer or officers of the District before the 2017 Bonds so signed or attested have been authenticated or delivered by the Trustee, or issued by the District, such 2017 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, will be as binding upon the District as though those who signed and attested the same had continued to be such officers of the District. Any 2017 Bonds may be signed and attested on behalf of the District by persons as who are proper officers of the District at the time of such signature and attestation although at the nominal date of such 2017 Bonds any such persons are not such officers of the District.

Only 2017 Bonds that bear a certificate of authentication substantially in the form set forth in Exhibit A, manually executed by the Trustee, will be valid or obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of or on behalf of the Trustee is conclusive evidence that the 2017 Bonds so authenticated have been duly executed, authenticated and delivered under the Indenture and are entitled to the benefits of the Indenture.

Section 2.07. 2017 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2017 Bond becomes mutilated, the District, at the expense of the Owner of said 2017 Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2017 Bond of like tenor, series and authorized denomination in exchange and substitution for the 2017 Bonds so mutilated, but only upon surrender to the Trustee of the 2017 Bond so mutilated. Every mutilated 2017 Bond so surrendered to the Trustee will be canceled by it and disposed of in a manner deemed appropriate by the Trustee. If any 2017 Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee is given, the District, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new 2017 Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2017 Bond so lost, destroyed or stolen (or if any such 2017 Bond has matured or is about to mature, instead of issuing a substitute 2017 Bond, the Trustee may pay the same without surrender thereof). The District may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2017 Bond and of the expenses which may be incurred by the District and the Trustee with respect thereto. Any 2017 Bond issued under the provisions of the Indenture in lieu of any 2017 Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the District, whether or not the 2017 Bond so alleged to be lost, destroyed, or stolen is at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other 2017 Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2017 Bond for a 2017 Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may make payment of such 2017 Bond upon receipt of indemnity satisfactory to the Trustee.

Section 2.08. Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2017 Bonds, the District may provide that such 2017 Bonds will be initially issued as book entry bonds. If the District elects to deliver any 2017 Bonds in book entry form, the District will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2017 Bonds in an authorized denomination corresponding to the total principal amount of the 2017 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2017 Bond will be registered in the 2017 Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2017 Bonds, or any portion thereof may not thereafter be transferred except as provided in Section 2.08(e).

With respect to book entry 2017 Bonds, the District and the Trustee have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry 2017 Bonds. Without limiting the immediately preceding sentence, the District and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry 2017 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2017 Bond Registration Books, of any notice with respect to book entry 2017 Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2017 Bonds to be redeemed in the event that the District redeems the 2017 Bonds in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest on book entry 2017 Bonds. The District and the Trustee may treat and consider the person in whose name each book entry 2017 Bond is registered in the 2017 Bond Registration Books as the absolute Owner of such book entry 2017 Bond for the purpose of payment of principal of, premium and interest on such 2017 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2017 Bond, for the purpose of registering transfers with respect to such 2017 Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2017 Bonds only to or upon the order of the respective Owner, as shown in the 2017 Bond Registration Books, or such Owner's respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the 2017 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2017 Bond Registration Books, may receive a 2017 Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2017 Bonds. Upon delivery by the Depository to the District and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture will refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book entry 2017 Bonds for the Depository's book entry system, the District and the Trustee (if required by the Depository) will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations does not in any way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2017 Bonds other than the Owners, as shown on the 2017 Bond Registration Books. By executing a Letter of Representations, the Trustee will agree to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the District and the Trustee will

take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book entry 2017 Bonds for the Depository's book entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book entry 2017 Bonds; or (ii) the District determines that continuation of the book entry system is not in the best interest of the beneficial owners of the 2017 Bonds or the District, then the District will discontinue the book entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District will prepare or direct the preparation of a new single, separate, fully registered 2017 Bond for each of the maturity dates of such book entry 2017 Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in subsection (e) below. If the District fails to identify another qualified securities depository to replace the Depository, then the 2017 Bonds will no longer be restricted to being registered in such 2017 Bond Registration Books in the name of the Nominee, but may be registered in whatever name or names the Owners transferring or exchanging such 2017 Bonds designate, in accordance with the provisions of Sections 2.03 and 2.04.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding 2017 Bonds are held in book entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such 2017 Bonds and all notices with respect to such 2017 Bonds will be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of 2017 Bonds to Substitute Depository.

(i) The 2017 Bonds will be initially issued as provided in Section 2.01. Registered ownership of such 2017 Bonds, or any portions thereof, may not thereafter be transferred except:

(A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) of subsection (i) of this Section 2.08(e) ("Substitute Depository"); provided that any successor of DTC or Substitute Depository is qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository is qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2017 Bonds by the Trustee,

together with a Written Request of the District to the Trustee designating the Substitute Depository, a single new 2017 Bond, which the District will prepare or cause to be prepared, will be issued for each maturity of 2017 Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such Written Request of the District. In the case of any transfer pursuant to clause (C) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2017 Bonds by the Trustee, together with a Written Request of the District to the Trustee, new 2017 Bonds, which the District will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such Written Request of the District, subject to the limitations of Section 2.01, provided that the Trustee is not required to deliver such new 2017 Bonds within a period of less than sixty (60) days from the date of receipt of such Written Request from the District.

(iii) In the case of a partial redemption or an advance refunding of any 2017 Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2017 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee is not liable for such Depository's failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2017 Bonds will be controlling.

(iv) The District and the Trustee are entitled to treat the person in whose name any 2017 Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2017 Bonds. Neither the District nor the Trustee have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2017 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2017 Bonds.

ARTICLE III

ISSUANCE OF 2017 BONDS; APPLICATION OF PROCEEDS

Section 3.01. Issuance of the 2017 Bonds. At any time after the execution of the Indenture, the District may execute and the Trustee will authenticate and, upon Written Request of the District, deliver the 2017 Bonds in the aggregate principal amount of \$_____.

Section 3.02. Application of Proceeds of the 2017 Bonds. The proceeds of the sale of the 2017 Bonds will be deposited with the Trustee, who will transfer the amount of \$_____ to the 2006 Trustee to be applied to prepay the 2006 Installment Purchase Agreement and deposit the amount of \$_____ into the Costs of Issuance Fund. The Trustee may establish temporary funds or accounts in its records to record and facilitate such transfer and deposit.

Section 3.03. Establishment and Application of Costs of Issuance Fund. The Trustee will establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund will be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Requisitions of the District stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred, that such payment is

proper charge against said fund and that payment for such charge has not previously been made. On the six month anniversary of the Closing Date, or upon the earlier Written Request of the District, all amounts remaining in the Costs of Issuance Fund will be transferred by the Trustee to the Interest Account, and the Costs of Issuance Fund will be closed. Investment earnings on amounts on deposit in the Costs of Issuance Fund will be applied in accordance with Section 5.07.

Section 3.04. Validity of 2017 Bonds. The validity of the authorization and issuance of the 2017 Bonds is not dependent on and will not be affected in any way by any proceedings taken by the District or the Trustee with respect to any other agreement. The recital contained in the 2017 Bonds that the same are issued pursuant to the Constitution and laws of the State is conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION OF 2017 BONDS

Section 4.01. Terms of Redemption.

(a) The 2017 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 _____ , 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:

(b) The 2017 Bonds with stated maturities on June 15, 20__ are subject to mandatory sinking fund redemption in part (by lot) on June 15, 20__ and each June 15 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

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

* Maturity.

If any such Term 2017 Bonds are redeemed pursuant to Section 4.01(a), the total amount of all future sinking fund payments with respect to such Term 2017 Bonds shall be reduced by the aggregate principal amount of such Term 2017 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.

Section 4.02. Selection of 2017 Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2017 Bonds, the Trustee will select the 2017 Bonds for redemption as a whole or in part on any date as directed by the District and by lot within each maturity in integral multiples of \$5,000 in accordance with Section 4.01, and in the absence of

such direction, in inverse order of maturity. The Trustee will promptly notify the District in writing of the numbers of the 2017 Bonds or portions thereof so selected for redemption.

Section 4.03. Notice of Redemption. Notice of redemption will be mailed by first class mail at least twenty (20) days but not more than sixty (60) days before any Redemption Date, to the respective Owners of any 2017 Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services. Each notice of redemption must: (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 2017 Bonds of any such maturity are to be redeemed, the serial numbers of the 2017 Bonds of such maturity to be redeemed by giving the individual number of each 2017 Bond or by stating that all 2017 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2017 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice must also state that on the Redemption Date there will become due and payable on each of said 2017 Bonds or parts thereof designated for redemption the Redemption Price thereof, or of said specified portion of the principal thereof in the case of a 2017 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 2017 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 2017 Bond. Notice of redemption of 2017 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 2017 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 2017 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 2017 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.

Section 4.04. Partial Redemption of 2017 Bonds. Upon surrender of any 2017 Bond redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the District, a new 2017 Bond or 2017 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2017 Bonds surrendered and of the same series, interest rate and maturity.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the 2017 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2017 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2017 Bonds so called for redemption will cease to accrue, said 2017 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2017 Bonds will have no rights in respect thereof except to receive payment of the Redemption Price thereof. The Trustee will, upon surrender for payment of any of the 2017 Bonds to be redeemed on their Redemption Dates, pay such 2017 Bonds at the Redemption Price.

All 2017 Bonds redeemed pursuant to the foregoing provisions will be canceled upon surrender thereof.

ARTICLE V

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Section 5.01. Pledge and Assignment; Revenue Fund.

(a) All of the Revenues, all amounts held in the Revenue Fund described in subsection (b) below, amounts transferred from the Rate Stabilization Fund, if established, to the Revenue Fund as described in Section 5.09 and any other amounts (including proceeds of the sale of the 2017 Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund and the Rate Stabilization Fund, if established, (other than those amounts transferred by the District from the Rate Stabilization Fund, if established, to the Revenue Fund)) are hereby irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2017 Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues may not be used for any other purpose while the 2017 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 2017 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.

(b) 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 2017 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:

(i) 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 2017 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.

(ii) 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.

(iii) 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 (b)(i) or (b)(ii) may be expended by the District at any time for any purpose permitted by law or deposited in the Rate Stabilization Fund, if established.

(iv) Investments. 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.

Section 5.02. Allocation of Revenues. There is hereby 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 2017 Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the 2017 Bonds received by the Trustee pursuant to Section 5.01(b) 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 2017 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 2017 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 2017 Bonds then Outstanding.

(b) Not later than the fifth Business Day preceding each date on which the principal of the 2017 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 2017 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 2017 Bonds then Outstanding.

Section 5.03. [Reserved].

Section 5.04. 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 2017 Bonds as it becomes due and payable (including accrued interest on any 2017 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

Section 5.05. 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 2017 Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2017 Bonds, upon written direction of the District, the Trustee may apply such amounts to the purchase of 2017 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 2017 Bonds.

Section 5.06. Application of Redemption Fund. There is hereby established with the Trustee a special fund designated as the "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 2017 Bonds to be redeemed on any Redemption Date pursuant to Section 4.01; provided, however, that at any time prior to selection for redemption of any such 2017 Bonds, upon written direction of the District, the Trustee may apply such amounts to the purchase of 2017 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 2017 Bonds.

Section 5.07. Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments. Such investments will be directed by the District pursuant to a Written Request of the District filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions will be promptly confirmed to the Trustee in writing). In the absence of any such directions from the District, the Trustee will invest any such moneys in Permitted Investments described in clause (b)(3) of the definition thereof; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received a written direction from the District specifying a specific money market fund and, if no such written direction from the District is so received, the Trustee will hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may

commingle funds (other than the Rebate Fund) held by it upon the Written Request of the District. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee will not be responsible or liable for losses arising from any investments made pursuant to the Indenture.

The Trustee will furnish the District with periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the District. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The District waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The District further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

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

The District will invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate.

For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but will account for each separately. In making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those available through the Trustee accounting system.

Section 5.08. Rebate Fund.

(a) Establishment. The Trustee will establish a fund for the 2017 Bonds designated the "Rebate Fund" when required in accordance with the Indenture. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2017 Bonds will not be adversely affected, the District will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the 2017 Bonds will be governed by this Section and the Tax Certificate, unless and to the extent that the District delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2017 Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained in the Indenture or in the Tax Certificate, the Trustee: (i) will be deemed conclusively to have complied with the provisions thereof if it follows all Requests of the District; (ii) has no liability or responsibility to enforce compliance by the District with the terms of the Tax Certificate; (iii) may rely conclusively on the District's calculations and determinations and certifications relating to rebate matters; and (iv) has no responsibility to independently make any calculations or determinations or to review the District's calculations or determinations thereunder.

(i) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the District will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with

respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The District will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Request of the District, an amount will be deposited to the Rebate Fund by the Trustee from any Net Revenues legally available for such purpose (as specified by the District in the aforesaid Written Request), if and to the extent required so that the balance in the Rebate Fund equals the amount of Rebatable Arbitrage so calculated in accordance with clause (i) of this subsection (a). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of the District, the Trustee will withdraw the excess from the Rebate Fund and credit the excess to the Payment Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Written Request of the District, to the United States Treasury, out of amounts in the Rebate Fund:

(A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all the 2017 Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the District will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this subsection (a) will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the District), or will be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the 2017 Bonds and the payments described in subsection (a) above being made may be withdrawn by the District and utilized in any manner by the District.

(c) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation to comply with the requirements of this Section will survive the defeasance or payment in full of the 2017 Bonds.

Section 5.09. Rate Stabilization Fund. The City is authorized but not required to establish a special fund designated as the “Rate Stabilization Fund.” If the City elects to establish a Rate

Stabilization Fund, such fund will be held by the District in trust under the Indenture. The District agrees and covenants to maintain and to hold such fund, if established, 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, if established, in accordance with Section 5.01(b)(iii) 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, if established, and transfer such amounts to the Revenue Fund for application in accordance with Section 5.01 or, in the event that all or a portion of the 2017 Bonds are discharged in accordance with Article X, transfer all or any portion of such amounts for application in accordance with Article X. Any such amounts transferred from the Rate Stabilization Fund, if established, to the Revenue Fund in accordance with the Indenture constitute pledged Revenues.

Section 5.10. Application of Funds and Accounts When No 2017 Bonds are Outstanding. On the date on which all 2017 Bonds are retired or provision made therefor pursuant to Article X, and after payment of all amounts due the Trustee under the Indenture, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the District for use by the District at any time for any purpose permitted by law.

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01. Punctual Payment. The District will punctually pay, or cause to be paid, the principal and interest to become due in respect of all of the 2017 Bonds, in strict conformity with the terms of the 2017 Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in the Indenture.

Section 6.02. Extension of Payment of 2017 Bonds. The District will not directly or indirectly extend or assent to the extension of the maturity of any of the 2017 Bonds or the time of payment of any claims for interest by the purchase of such 2017 Bonds or by any other arrangement, and in case the maturity of any of the 2017 Bonds or the time of payment of any such claims for interest is extended, such 2017 Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the 2017 Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Indenture will be deemed to limit the right of the District to issue Bonds for the purpose of refunding any Outstanding 2017 Bonds, and such issuance will not be deemed to constitute an extension of maturity of 2017 Bonds.

Section 6.03. Against Encumbrances. The District will not make any pledge of, or place any lien on, Revenues or the moneys in the Revenue Fund except as provided in the Indenture. The District may at any time, or from time to time, execute Contracts or issue Bonds as permitted in the Indenture. The District may also at any time, or from time to time, incur evidences of indebtedness, or incur other obligations, for any lawful purpose which are payable from and secured by a pledge of lien on Revenues on any moneys in the Revenue Fund as may from time to time be deposited therein, provided that such pledge and lien is subordinate in all respects to the pledge of and lien thereon provided in the Indenture.

Section 6.04. Power to Issue 2017 Bonds and Make Pledge and Assignment. The District is duly authorized pursuant to law to issue the 2017 Bonds, to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The 2017 Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the District in accordance with their terms, and the District and the Trustee will at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the 2017 Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Section 6.05. Accounting Records and Financial Statements.

(a) The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries are made of all transactions made by it relating to the proceeds of 2017 Bonds and all funds and accounts established by it pursuant to the Indenture. Such books of record and account will be available for inspection by the District upon reasonable prior notice during business hours and under reasonable circumstances.

(b) The District will keep appropriate accounting records in which complete and correct entries are made of all transactions relating to the Sewer System, which records will be available for inspection by the Trustee (which has no duty to inspect such records) at reasonable hours and under reasonable conditions.

(c) The District will prepare and file with the Trustee, upon the Trustee's written request, within two hundred seventy (270) days of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2017), financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon. The Trustee has no duty to review such financial statements.

Section 6.06. Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the 2017 Bonds will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the 2017 Bonds, and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the 2017 Bonds or of any other moneys or property which would cause the 2017 Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the 2017 Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the 2017 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The District will make no use of the proceeds of the 2017 Bonds or take or omit to take any action that would cause the 2017 Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2017 Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the 2017 Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the 2017 Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2017 Bonds for federal income tax purposes; and

(f) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed by the District in connection with the issuance of the 2017 Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

The foregoing covenants are not applicable to, and nothing contained in the Indenture will be deemed to prevent the District from causing the Trustee to issue revenue bonds or to execute and deliver contracts payable on a parity with the 2017 Bonds, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Section 6.07. Waiver of Laws. The District will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time later in force that may affect the covenants and agreements contained in the Indenture or in the 2017 Bonds, and all benefit or advantage of any such law or laws is expressly waived by the District to the extent permitted by law.

Section 6.08. Further Assurances. The District will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the 2017 Bonds of the rights and benefits provided in the Indenture.

Section 6.09. Budgets. On or prior to the thirtieth day of each Fiscal Year, the District will certify to the Trustee that the amounts budgeted for payment of the principal of and interest on the 2017 Bonds are fully adequate for the payment of all such payments for such Fiscal Year. If the amounts so budgeted are not adequate for the payment of the principal of and interest on the 2017 Bonds due under the Indenture, the District will take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the District in the then ensuing Fiscal Year for the payment of the principal of and interest on the 2017 Bonds due under the Indenture and will notify the Trustee of the proceedings then taken or proposed to be taken by the District.

Section 6.10. Observance of Laws and Regulations. To the extent necessary to assure its performance under the Indenture, the District will well and truly keep, observe and perform all valid

and lawful obligations or regulations now or later imposed on the District by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or later acquired by the District, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Section 6.11. Compliance with Contracts. The District will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the District to pay principal of or interest on the 2017 Bonds; and the District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Sewer System, to the extent that the District is a party thereto.

Section 6.12. Prosecution and Defense of Suits. The District will promptly, upon request of the Trustee or any 2017 Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Sewer System or any part thereof, whether now existing or later developing, prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and indemnify and save the Trustee (including all of its employees, officers and directors) and every 2017 Bond Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The District will defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) or any 2017 Bond Owner upon any claim arising out of the receipt, application or disbursement of any of the payments of principal of or interest on the 2017 Bonds or involving the rights of the Trustee or any 2017 Bond Owner under the Indenture; provided that the Trustee or any 2017 Bond Owner at such party's election may appear in and defend any such suit, action or proceeding. The District will indemnify, protect and hold harmless the Trustee and the 2017 Bond Owners against any and all losses, damages, liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and will indemnify and hold harmless the 2017 Bond Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation (including pre-litigation activities) to which any of them may become a party by reason of ownership of 2017 Bonds. The District will promptly reimburse any 2017 Bond Owner in the full amount of any attorneys' fees or other expenses which such Owner may incur in litigation or otherwise in order to enforce such party's rights under the Indenture or the 2017 Bonds, provided that such litigation is concluded favorably to such party's contentions therein. The foregoing indemnification obligations of the District will survive the termination of the Indenture and the resignation or removal of the Trustee.

Section 6.13. Continuing Disclosure. The District hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed and delivered by the District in connection with the issuance of the 2017 Bonds. Notwithstanding any other provision of the Indenture, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with the foregoing obligations. For purposes of this Section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2017

Bonds (including persons holding 2017 Bonds through nominees, depositories or other intermediaries).

Section 6.14. Additional Contracts and Bonds. The District may at any time execute any Contract or issue any Bonds, as the case may be, provided that:

(a) The Net Revenues 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 Bonds or the date of the execution of such Contract, as the case may be, produce a sum equal to at least one hundred fifteen percent (115%) of the Debt Service for such Fiscal Year.

The foregoing shall be 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.

When calculated for purposes of this subsection, Net Revenues do not include amounts transferred from the Rate Stabilization Fund, if established, to the Revenue Fund pursuant to Section 5.09 that are in excess of fifteen percent (15%) of Debt Service for such Fiscal Year.

(b) The Net Revenues 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 Bonds or the date of the execution of such Contract, as the case may be, produce a sum equal to at least one hundred fifteen percent (115%) of: (i) the Debt Service for such Fiscal Year; plus (ii) the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year, assuming that such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year; plus (iii) the Debt Service which would have accrued had such proposed additional Contract been executed or proposed additional Bonds been issued at the beginning of such Fiscal Year.

The foregoing shall be evidenced by a calculation prepared by the District. The calculation of Net Revenues may include 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.

When calculated for purposes of this subsection, Net Revenues do not include amounts transferred from the Rate Stabilization Fund, if established, to the Revenue Fund pursuant to Section 5.09 that are in excess of fifteen percent (15%) of Debt Service for such Fiscal Year.

(c) Notwithstanding the foregoing, Bonds or Contracts may be issued or incurred to refund outstanding 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 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.

(d) Nothing contained in this Section limits the issuance of any obligations payable from Net Revenues on a subordinate basis to the Contracts and Bonds.

Section 6.15. Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Sewer System or any part thereof

necessary to secure adequate Revenues for the payment of the principal of and interest on the 2017 Bonds, or which would otherwise impair the operation of the Sewer System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Sewer System, or any material or equipment which has become worn out, may be sold so long as such sale will not impair the ability of the District to pay the principal of and interest on the 2017 Bonds and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing in the Indenture restricts the ability of the District to sell any portion of the Sewer System so long as such portion is immediately repurchased by the District, and so long as such arrangement cannot by its terms result in the purchaser of such portion of the Sewer System exercising any remedy which would deprive the District of, or otherwise interfere with, its right to own and operate such portion of the Sewer System.

Section 6.16. Against Competitive Facilities. To the extent that it can so legally obligate itself, the District covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the Sewer Service area any Sewer System competitive with the Sewer System.

Section 6.17. Maintenance and Operation of the Sewer System. The District will maintain and preserve the Sewer System in good repair and working order at all times, operate the Sewer System in an efficient and economical manner and pay all Operation and Maintenance Costs as they become due and payable.

Section 6.18. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created under the Indenture or on any funds in the hands of the District pledged to pay the principal of or interest on the 2017 Bonds or to the Owners prior or superior to the lien under the Indenture.

Section 6.19. Insurance.

(a) 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 such insured portions 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 2017 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 2017 Bonds prior to the final due date of the 2017 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.

(b) The District will procure and maintain, or cause to be procured and maintained on its behalf, such other insurance as it deems advisable or necessary to protect its interests and the interests of the 2017 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.

(c) Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, 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.

Section 6.20. Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Sewer System or any part thereof or upon the Revenues when the same become due. The District will duly observe all valid regulations and requirements of any governmental authority relative to the operation of the Sewer System, or any part thereof, but the District is not required to comply with any regulations or requirements so long as the validity or application thereof is contested in good faith.

Section 6.21. Amount of Rates and Charges.

(a) In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund, if established, on the first day of such Fiscal Year is less than the Debt Service on the 2017 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 equal to one hundred fifteen percent (115%) of Debt Service for such Fiscal Year.

When calculated for purposes of this subsection, Net Revenues do not include amounts transferred from the Rate Stabilization Fund, if established, pursuant to Section 5.09 that are in excess of fifteen percent (15%) of Debt Service for such Fiscal Year.

(b) In any Fiscal Year in which the amount on deposit in the Rate Stabilization Fund on the first day of such Fiscal Year is at least equal to the Debt Service on the 2017 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 equal to one hundred fifteen percent (115%) of Operation and Maintenance Costs for such Fiscal Year.

When calculated for purposes of this subsection, Revenues do not include any amounts transferred from the Rate Stabilization Fund, if established, pursuant to Section 5.09.

(c) 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.

Section 6.22. Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Sewer Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Section 6.23. Eminent Domain Proceeds. 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.

Section 6.24. Enforcement of Contracts. The District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with, any contracts previously or later entered into if such rescission or amendment

would in any manner impair or adversely affect the ability of the District to pay principal of and interest on the 2017 Bonds.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF 2017 BOND OWNERS

Section 7.01. Events of Default. The following events are Events of Default under the Indenture:

(a) Default by the District in the due and punctual payment of the principal of any 2017 Bonds, the principal of any Bonds or the principal with respect to any Contract, when and as the same become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise.

(b) Default by the District in the due and punctual payment of any installment of interest on any 2017 Bonds, any installment of interest on any Bond or any installment of interest with respect to any Contract, when and as the same become due and payable.

(c) Default by the District in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the 2017 Bonds, or required by any Bond or indenture relating thereto or by any Contract, if such default continues for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the District by the Trustee or by the Owners of not less than a majority in aggregate principal amount of 2017 Bonds Outstanding, a majority in principal amount of such Bonds outstanding, or a majority in principal amount outstanding with respect to such Contract, as applicable; provided, however, that if in the reasonable opinion of the District the default stated in the notice can be corrected, but not within such thirty (30) day period, and corrective action is instituted by the District within such thirty (30) day period and diligently pursued in good faith until the default is corrected, such default will not be an Event of Default.

(d) The District files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction approves a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the District or of the whole or any substantial part of its property.

(e) Payment of the principal of any Bond or with respect to any Contract is accelerated in accordance with its terms.

Section 7.02. Remedies Upon Event of Default. If any Event of Default specified in Section 7.01 occurs and is continuing, the Trustee may declare the principal of all of the 2017 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Indenture or in the 2017 Bonds contained to the contrary notwithstanding.

Nothing contained in the Indenture permits or requires the Trustee to accelerate payments due under the Indenture if the District is not in default of its obligation thereunder.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due has been obtained or entered, the District deposits with the Trustee a sum sufficient to pay all of the principal of and installments of interest on the 2017 Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective 2017 Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, or deposits with the applicable trustee with respect to any Contract a sum sufficient to pay all of the principal and installments of interest with respect to such Contract payment of which is overdue, with interest on such overdue principal at the rate borne by such Contract to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Contract, or deposits with the applicable trustee with respect to any Bond a sum sufficient to pay all of the principal of and installments of interest on such Bond payment of which is overdue, with interest on such overdue principal at the rate borne by such Bonds to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Bonds, and any and all other Events of Default known to the Trustee or the applicable trustee with respect to such Contract or Bonds (other than in the payment of principal of and interest on the 2017 Bonds, payment of principal and interest with respect to such Contract or payment of principal and interest on such Bond, as applicable, due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case the Trustee will, on behalf of the Owners of all of the 2017 Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment will extend to or affect any subsequent Event of Default, or impair or exhaust any right or power consequent thereon.

Section 7.03. Application of Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Revenues held or thereafter received by the Trustee and all amounts in any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than amounts held in the Rebate Fund and the Rate Stabilization Fund, if established) will be applied in the following order:

(a) To the payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture and any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the 2017 Bonds, Contract or Bonds;

(b) To the payment of Operation and Maintenance Costs; and

(c) To the payment of the principal of and interest then due on the 2017 Bonds (upon presentation of the 2017 Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid), in accordance with the provisions of the Indenture, the payment of the principal and interest then due with respect to such Contract in accordance with the provisions thereof and the payment of the principal of and interest then due on such Bonds in accordance with the provisions thereof and of any indenture related thereto, in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due on the 2017 Bonds, with respect to such Contract or on such Bonds, as applicable, in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Second: To the payment to the persons entitled thereto of the unpaid principal of any 2017 Bonds, principal with respect to such Contract or principal of any Bonds, as applicable, which have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of eight percent (8%) per annum, and, if the amount available is not sufficient to pay in full all the 2017 Bonds, all amounts due under such Contract or all of the Bonds, as applicable, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Third: If there is any remainder after the foregoing payments, such remainder will be paid to the District.

Section 7.04. Trustee to Represent 2017 Bond Owners. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the 2017 Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2017 Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the 2017 Bonds or the Indenture and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2017 Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the 2017 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee and such Owners under the 2017 Bonds or the Indenture or any law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2017 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2017 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all of the Owners of such 2017 Bonds, subject to the provisions of the Indenture.

Section 7.05. 2017 Bond Owners' Direction of Proceedings. The Owners of a majority in aggregate principal amount of the 2017 Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction to direct the method of conduct in all remedial proceedings taken by the Trustee under the Indenture, provided that such direction must be in accordance with law and the provisions of the Indenture, and that the Trustee has the right to decline to follow any

such direction which in the opinion of the Trustee would be unjustly prejudicial to 2017 Bond Owners not parties to such direction.

Section 7.06. Suit by Owners. No Owner of any 2017 Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture with respect to such 2017 Bonds, unless: (a) such Owners have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than fifty percent (50%) in aggregate principal amount of the 2017 Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of sixty (60) days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the 2017 Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are, in every case, conditions precedent to the exercise by any Owner of 2017 Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2017 Bonds have any right in any manner whatever by their actions to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2017 Bonds, or to enforce any right under the 2017 Bonds, the Indenture, or applicable law with respect to the 2017 Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding 2017 Bonds, subject to the provisions of the Indenture.

Section 7.07. Absolute Obligation of the District. Nothing in the Indenture or in the 2017 Bonds affects or impairs the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2017 Bonds to the respective Owners of the 2017 Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets pledged therefor in the Indenture, or affects or impairs the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2017 Bonds.

Section 7.08. Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the 2017 Bonds in the Indenture is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or later existing at law or in equity or otherwise.

Section 7.09. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2017 Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or be construed to be a waiver of any such Event of Default or an acquiescence therein.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee.

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

(b) The District may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2017 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with subsection (e) of this Section or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee. The District will thereafter promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by providing a 45-day written notice of such resignation to the District and by giving the 2017 Bond Owners notice of such resignation by first class mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any 2017 Bond Owner (on behalf of such Owner and all other 2017 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all of the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the District or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all of the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the District will execute and deliver any and all

instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the District will mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which is then rating the 2017 Bonds and to the 2017 Bond Owners at the addresses shown on the Registration Books. If the District fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the District. The Trustee's rights to indemnity and reimbursement of outstanding fees and expenses will survive the Trustee's resignation or removal.

(e) Any Trustee appointed under the provisions of this Section in succession to the Trustee must be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least Seventy Five Million Dollars (\$75,000,000), and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such trust company, banking association or bank will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of this subsection (e), the Trustee will resign immediately in the manner and with the effect specified in this Section.

Section 8.02. Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated, or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it is a party, or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank is eligible under subsection (e) of Section 8.01, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Section 8.03. Liability of Trustee.

(a) The recitals of facts in the Indenture and in the 2017 Bonds will be taken as statements of the District, and the Trustee does not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or the 2017 Bonds, nor will the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations therein or in the 2017 Bonds assigned to or imposed upon it. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the 2017 Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2017 Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2017 Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2017 Bonds then Outstanding.

(b) The Trustee is not liable for any error of judgment made in good faith by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for in the Indenture) in aggregate principal amount of the 2017 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee is not liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any default or Event of Default under the Indenture or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture unless and until a Responsible Officer of the Trustee has actual knowledge of such event or the Trustee has been notified in writing, in accordance with Section 11.07, of such event by the District or the Owners of not less than fifty percent (50%) of the 2017 Bonds then Outstanding. In the absence of such notice, the Trustee may conclusively assume that no Event of Default exists. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the District of any of the terms, conditions, covenants or agreements of the Indenture, any of the documents executed in connection with the 2017 Bonds or the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of any of its rights or powers.

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

(h) Whether or not expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of this Article VIII.

(i) The Trustee has no responsibility or liability with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2017 Bonds.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and is not answerable for the negligence or willful misconduct of any attorney, agent or receiver if appointed by it with reasonable care.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay (“unavoidable delay”) in the performance of such obligations due to unforeseeable causes beyond its control and without its willful misconduct or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Sewer System, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured electronic mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee must have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee’s understanding of such instructions will be deemed controlling. The Trustee is not liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such instructions notwithstanding the fact that such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(n) The Trustee is not responsible for the application of the 2017 Bond proceeds, for the use or application of any property or for any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

(o) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Owners pursuant to the provisions of the Indenture unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(p) The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty, and the Trustee is not answerable for other than its negligence or willful misconduct.

(q) Under no circumstances will the Trustee be liable in its individual capacity (as opposed to its capacity as Trustee under the Indenture) for the obligations evidenced by the 2017 Bonds

Section 8.04. Right to Rely on Documents. The Trustee will be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2017 Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2017 Bonds for all purposes and the Trustee will not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof is specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the District, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Section 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture will be retained in the Trustee's possession and will be subject at all reasonable times to the inspection of the District and any 2017 Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Section 8.06. Compensation and Indemnification. The District will pay to the Trustee from time to time all reasonable compensation for all services and will reimburse the Trustee for all advances and expenditures, including but not limited to advances, fees and all reasonable expenses, charges, legal and consulting fees and other disbursements and those of the Trustee's attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The District will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or willful misconduct on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust therein, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers thereunder. The rights of the Trustee and the obligations of the District under this Section 8.06 will survive removal or resignation of the Trustee or the discharge of the 2017 Bonds and the Indenture.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

Section 9.01. Amendments Permitted.

(a) The Indenture and the rights and obligations of the District, the Owners of the 2017 Bonds and the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the District and the Trustee may enter into when the prior written consent of the Owners of a majority in aggregate principal amount of all 2017 Bonds then Outstanding, exclusive of 2017 Bonds disqualified as provided in Section 11.09, have been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any 2017 Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the prior written consent of the Owner of each 2017 Bond so affected; or (2) reduce the aforesaid percentage of 2017 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the 2017 Bonds of the lien created by the Indenture on such Revenues and other assets except as permitted in the Indenture, without the consent of the Owners of all of the 2017 Bonds then Outstanding. It is not necessary for the consent of the 2017 Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof. Promptly after the execution by the District and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2017 Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the District, the Trustee and the Owners of the 2017 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the District and the Trustee may enter into without the consent of any 2017 Bond Owners, if the Trustee receives an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture do not materially adversely affect the interests of the Owners of the Outstanding 2017 Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the District contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2017 Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the District in the Indenture;

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

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

(4) to modify, amend or supplement the Indenture in such manner as to cause interest on the 2017 Bonds to remain excludable from gross income under the Code.

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

(d) Prior to the Trustee entering into any Supplemental Indenture, there will be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2017 Bonds from federal income taxation and from state income taxation.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District, the Trustee and all Owners of 2017 Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Section 9.03. Endorsement of 2017 Bonds; Preparation of New 2017 Bonds. 2017 Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Trustee so determines will, bear a notation by endorsement or otherwise in form approved by the District and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2017 Bonds Outstanding at the time of such execution and presentation of his or her 2017 Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation is made on such 2017 Bonds. If the Supplemental Indenture so provides, new 2017 Bonds so modified as to conform, in the opinion of the District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the District and authenticated by the Trustee, and upon demand on the Owners of any 2017 Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any 2017 Bond Owner, for 2017 Bonds then Outstanding, upon surrender for cancellation of such 2017 Bonds, in equal aggregate principal amount of the same maturity.

Section 9.04. Amendment of Particular 2017 Bonds. The provisions of this Article do not prevent any 2017 Bond Owner from accepting any amendment as to the particular 2017 Bonds held by such Owner.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. The 2017 Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable under the Indenture by the District:

(a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the 2017 Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem all 2017 Bonds then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the 2017 Bonds then Outstanding.

If the District also pays or causes to be paid all other sums payable under the Indenture by the District, then and in that case, at the election of the District (as evidenced by a Certificate of the District, filed with the Trustee, signifying the intention of the District to discharge all such indebtedness and the Indenture), and notwithstanding the fact that any 2017 Bonds have not been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the District under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the District, the Trustee will execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of 2017 Bonds not theretofore surrendered for such payment or redemption to the District.

Section 10.02. Discharge of Liability on 2017 Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding 2017 Bonds (whether upon or prior to the maturity or the Redemption Date of such 2017 Bonds), provided that, if such Outstanding 2017 Bonds are to be redeemed prior to maturity, notice of such redemption has been given as provided in Article IV or provisions satisfactory to the Trustee have been made for the giving of such notice, then all liability of the District in respect of such 2017 Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of Section 10.04.

The District may at any time surrender to the Trustee for cancellation by it any 2017 Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such 2017 Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Section 10.03. Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any 2017 Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2017 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2017 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as provided in Article IV or provisions satisfactory to the Trustee have been made for the giving of such notice, the amount to be deposited or held will be the principal amount of such 2017 Bonds and all unpaid interest and premium, if any, thereon to the Redemption Date; or

(b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Independent Certified Public Accountant or Independent Financial Consultant filed with the District and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the Redemption Date (with premium, if any), as the case may be, on the 2017 Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 2017 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in Article IV or provisions satisfactory to the Trustee have been made for the giving of such notice;

provided, in each case, that: (i) the Trustee will be irrevocably instructed (by the terms of the Indenture or by Written Request of the District) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2017 Bonds; and (ii) the District will delivered to the Trustee an opinion of Bond Counsel addressed to the District and the Trustee to the effect that such 2017 Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above).

Section 10.04. Payment of 2017 Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2017 Bonds and remaining unclaimed for two (2) years after the principal of all of the 2017 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the 2017 Bonds became due and payable, will be repaid to the District free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the District and the Trustee indemnifying the Trustee with respect to claims of Owners of 2017 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the District as aforesaid, the Trustee will at the written direction of the District (at the cost of the District) first mail to the Owners of 2017 Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the 2017 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Liability of District Limited to Revenues. Notwithstanding anything in the Indenture or the 2017 Bonds, but subject to the priority of payment with respect to Operation and Maintenance Costs, the District is not required to advance any moneys derived from any source other than the Revenues, the Revenue Fund and other moneys pledged under the Indenture for any of the purposes of the Indenture, whether for the payment of the principal of or interest on the 2017 Bonds or for any other purpose of the Indenture. Nevertheless, the District may, but is not required to, advance for any of the purposes of the Indenture any funds of the District which may be made available to it for such purposes.

The obligation of the District to pay interest and principal on the 2017 Bonds is a special obligation of the District payable solely from the Net Revenues, and does not constitute a debt of the

District or of the State of California or of any political subdivision thereof (other than the District) in contravention of any constitutional or statutory debt limitation or restriction.

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

Section 11.03. Limitation of Rights to Parties and 2017 Bond Owners. Nothing in the Indenture or in the 2017 Bonds expressed or implied is intended or will be construed to give to any person other than the District, the Trustee and the Owners of the 2017 Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the District, the Trustee and the Owners of the 2017 Bonds.

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

Section 11.05. Destruction of 2017 Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee, the Trustee will cancel and dispose of such 2017 Bonds in a manner deemed appropriate by the Trustee.

Section 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2017 Bonds are for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture. The District hereby declares that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase thereof and authorized the issuance of the 2017 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Section 11.07. Notices. Any notice to or demand upon the District or the Trustee will be deemed to have been sufficiently given or served for all purposes by being sent by facsimile, electronic mail, overnight mail or courier, or by being deposited, first class mail, postage prepaid, in a post office letter box, addressed, as the case may be, to the District at c/o City of Garden Grove, 11222, Acacia Parkway, Garden Grove, California 92840, Attention: Assistant City Manager / Finance Director (or such other address as may have been filed in writing by the District with the Trustee), to the Trustee at its Office. Notwithstanding the foregoing provisions of this Section 11.07, the Trustee will not be deemed to have received, and will not be liable for failing to act upon the contents of, any notice unless and until the Trustee actually receives such notice.

Section 11.08. Evidence of Rights of 2017 Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2017 Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 2017 Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 2017 Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the District if made in the manner provided in this Section.

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

The Ownership of 2017 Bonds will be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any 2017 Bond will bind every future Owner of the same 2017 Bond and the Owner of every 2017 Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the District in accordance therewith or reliance thereon.

Section 11.09. Disqualified 2017 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2017 Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2017 Bonds which are known by the Trustee to be owned or held by or for the account of the District, or by any other obligor on the 2017 Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the 2017 Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2017 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such 2017 Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the 2017 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request, the District will certify to the Trustee those 2017 Bonds that are disqualified pursuant to this Section 11.09 and the Trustee may conclusively rely on such certificate.

Section 11.10. Money Held for Particular 2017 Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2017 Bonds (or portions of 2017 Bonds in the case of registered 2017 Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the 2017 Bonds entitled thereto, subject, however, to the provisions of Section 10.04 but without any liability for interest thereon.

Section 11.11. Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an

account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of Section 6.05(a) and for the protection of the security of the 2017 Bonds and the rights of every Owner thereof.

Section 11.12. Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the District will be individually or personally liable for the payment of the principal of or premium or interest on the 2017 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture relieves any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

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

Section 11.14. CUSIP Numbers. Neither the Trustee nor the District is liable for any defect or inaccuracy in the CUSIP number that appears on any 2017 Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the 2017 Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2017 Bond Owners and that neither the District nor the Trustee is liable for any inaccuracies in such numbers.

Section 11.15. Choice of Law. THE INDENTURE WILL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

Section 11.16. Paired Obligation Provider Guidelines. For purposes of Sections 6.14 and 6.21, Paired Obligations must comply with the following conditions:

(a) A Paired Obligation Provider must initially have a long-term rating of “A-” or better by S&P.

(b) So long as the long-term rating of the Paired Obligation Provider is not reduced below “Baa2” by S&P, the interest rate of such Paired Obligation will be deemed to be equal to the irrevocable fixed interest rate attributable thereto for purposes of Sections 6.14 and 6.21.

In the event that a Paired Obligation Provider does not maintain the Minimum Rating Requirement and the District does not replace such Paired Obligation Provider with another Paired Obligation Provider which maintains the Initial Rating Requirement within ten (10) Business Days of notice that the Paired Obligation Provider has not maintained the Minimum Rating Requirement, interest with respect to such Paired Obligations will be computed for purposes of Sections 6.14 and 6.21 without regard to payments to be received from the Paired Obligation Provider.

IN WITNESS WHEREOF, the District has caused the Indenture to be signed in its name by its President, and the Trustee, in token of its acceptance of the trusts created hereunder, has caused the Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

GARDEN GROVE SANITARY DISTRICT

By: _____
Its: President

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Its: Authorized Officer

EXHIBIT A

FORM OF 2017 BOND

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. _____

\$ _____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

GARDEN GROVE SANITARY DISTRICT
REVENUE REFUNDING BOND, SERIES 2017

INTEREST RATE	MATURITY DATE	ORIGINAL ISSUE DATE	CUSIP
_____ %	June 15, 20__	March __, 2017	_____

REGISTERED OWNER CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

The GARDEN GROVE SANITARY DISTRICT, a special district that is duly organized and existing under the laws of the State of California (the "District"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless: (i) this Bond is authenticated after the first day of the calendar month in which an interest payment date falls, whether or not such day is a business day, and on or before the following interest payment date, in which event it shall bear interest from such interest payment date; or (ii) this Bond is authenticated on or before [June 1], 2017, in which event it shall bear interest from the Original Issue Date identified above; provided, however, that if as of the date of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on this Bond), at the Interest Rate per annum specified above, payable on June 15 and December 15 of each year, commencing [June 15], 2017, calculated on the basis of a 360 day year composed of twelve 30 day months. Principal hereof and premium, if any, upon early redemption hereof are payable by check of the Trustee upon presentation and surrender hereof at the Office (as defined in the hereinafter described Indenture) of U.S. Bank National Association, as trustee (the "Trustee").

Interest hereon is payable by check of the Trustee sent by first class mail on the applicable interest payment date to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the first day of the month in which each interest payment date falls (except that in the case of a Registered Owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such Registered Owner's option, be made 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 Registered Owner prior to the first day of the month in which such interest payment date falls).

This Bond is not a debt of the State of California, or any of its political subdivisions (other than the District), and neither the State, nor any of its political subdivisions (other than the District), is liable hereon, nor in any event shall this Bond be payable out of any funds or properties of the District other than the Net Revenues (as such term is defined in the Indenture of Trust, dated as of March 1, 2017 (the "Indenture"), by and between the District and the Trustee) and other moneys pledged therefor under the Indenture. The obligation of the District to make payments in accordance with the Indenture is a limited obligation of the District as set forth in the Indenture, and the District shall have no liability or obligation in connection herewith except with respect to such payments to be made pursuant to the Indenture. This Bond does not constitute an indebtedness of the District in contravention of any constitutional or statutory debt limitation or restriction.

This Bond is one of a duly authorized issue of bonds of the District designated as the "Garden Grove Sanitary District Revenue Refunding Bonds, Series 2017" (the "2017 Bonds"), of an aggregate principal amount of ___ Million ___ Hundred ___ Thousand Dollars (\$___), all of like tenor and date (except for such variation, if any, as may be required to designate varying series, numbers or interest rates) and all issued pursuant to the provisions of Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, and pursuant to the Indenture and the resolution authorizing the issuance of the 2017 Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the District) and all supplements thereto for a description of the terms on which the 2017 Bonds are issued, the provisions with regard to the nature and extent of the Net Revenues, and the rights thereunder of the Owners of the 2017 Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the District hereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees. The 2017 Bonds have been issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof.

The 2017 Bonds have been issued by the District to prepay and defease that certain Installment Purchase Agreement, dated as of April 1, 2006, by and between the District and the Garden Grove Public Financing Authority, as more fully described in the Indenture.

This Bond and the interest, premium, if any, hereon and all other 2017 Bonds and the interest and premium, if any, thereon (to the extent set forth in the Indenture) are special obligations of the District, secured by a pledge and lien on the Revenues and any other amounts on deposit in certain funds and accounts created under the Indenture, and payable from the Net Revenues. As and to the extent set forth in the Indenture, all of the Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest and premium (if any) on this Bond.

The Indenture and the rights and obligations of the District and the Owners of the 2017 Bonds and the Trustee may be modified or amended from time to time and at any time with the prior

written consent of the Owners of a majority in aggregate principal amount of all 2017 Bonds then Outstanding, exclusive of Bonds disqualified as set forth in the Indenture, in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall: (i) extend the fixed maturity of any 2017 Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, extend the time of payment of interest thereon, without the prior written consent of the Owner of each 2017 Bond so affected; or (ii) reduce the aforesaid percentage of 2017 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the 2017 Bonds of the lien created by the Indenture on such Revenues and other assets, except as expressly provided in the Indenture, without the consent of the Owners of all of the 2017 Bonds then Outstanding.

The Indenture and the rights and obligations of the District, the Trustee and the Owners of the 2017 Bonds may also be modified or amended for certain purposes described more fully in the Indenture at any time in the manner, to the extent and upon the terms provided in the Indenture by a supplemental indenture, which the District and the Trustee may enter into without the consent of any 2017 Bond Owners, if the Trustee shall receive an opinion of Bond Counsel to the effect that the provisions of such supplemental indenture will not materially adversely affect the interests of the Owners of the Outstanding 2017 Bonds.

The 2017 Bonds with stated maturities on or after June 15, 20__, shall be subject to redemption prior to their respective stated maturities, as a whole or in part on _____, 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) 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.

The 2017 Bonds with stated maturities on June 15, 20__ are subject to mandatory sinking fund redemption in part (by lot) on June 15, 20__ and each June 15 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

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

* Maturity.

As provided in the Indenture, notice of redemption shall be mailed by the Trustee by first class mail at least 20 days but not more than 60 days prior to the date fixed for redemption to the respective Owners of any 2017 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither the failure to receive such notice nor any defect in the notice or the mailing thereof shall affect the validity of the redemption.

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

If an Event of Default, as defined in the Indenture, shall occur, the principal of all of the 2017 Bonds and the interest accrued thereon may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his or her duly authorized attorney in writing, at the office of the Trustee but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new 2017 Bond or 2017 Bonds of the same series, of authorized denomination or denominations, for the same aggregate principal amount of the same maturity will be issued to the transferee in exchange therefor.

This Bond may be exchanged at said office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same series and same maturity, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture.

The Trustee shall not be required to register the transfer or exchange of this Bond during the period in which the Trustee is selecting 2017 Bonds for redemption or if this Bond has been selected for redemption.

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

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Indenture and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit under any laws of the State of California, and is not in excess of the amount of 2017 Bonds permitted to be issued under the Indenture.

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

IN WITNESS WHEREOF, the District has caused this Bond to be executed in its name and on its behalf with the manual or facsimile signature of its President as of this ____ day of March, 2017.

GARDEN GROVE SANITARY DISTRICT

By: _____
Its: President

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION
TO APPEAR ON BONDS]

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

Dated: March __, 2017

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Its: Authorized Signatory

[FORM OF ASSIGNMENT]

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

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

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

Dated: _____

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

Signature Guaranteed:

Note: Signature guarantee shall be made by a
guarantor institution participating in
the Securities Transfer Agents
Medallion Program or in such other
guarantee program acceptable to the
Trustee.

§ _____
GARDEN GROVE SANITARY DISTRICT
Revenue Refunding Bonds, Series 2017

CONTINUING DISCLOSURE CERTIFICATE

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) 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 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

§ _____
**GARDEN GROVE SANITARY DISTRICT
REVENUE REFUNDING BONDS, SERIES 2017**

PURCHASE CONTRACT

_____, 2017

Garden Grove Sanitary District
11222 Acacia Parkway
Garden Grove, California 92840

Ladies and Gentlemen:

Stern Brothers & Co. (the “Underwriter”) hereby offers to enter into this Purchase Contract with you, the Garden Grove Sanitary District (the “District”), for the purchase by the Underwriter and the delivery by you of the Bonds specified below. The Bonds are being issued by the District for the purpose of (i) refinancing the District’s obligation to make installment payments under an Installment Purchase Agreement, dated as of April 1, 2006, between the District and the Garden Grove Public Financing Authority, and thereby prepaying the District’s outstanding Revenue Certificates of Participation (Sewer Services Capital Improvement Program) Series 2006 (the “2006 Obligation”) and (ii) to pay costs of issuance of the Bonds. This offer is made subject to acceptance by you prior to 11:59 p.m., Los Angeles time, on the date hereof. Upon such acceptance, this Purchase Contract shall be in full force and effect in accordance with its terms and shall be binding upon you and the Underwriter. All terms not defined herein shall have the meanings set forth in the Indenture (defined below).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter agrees to purchase from the District, and the District agrees to sell to the Underwriter, all (but not less than all) of the \$_____ aggregate principal amount of the District’s Revenue Refunding Bonds, Series 2017 (the “Bonds”), at the purchase price of \$_____ (being the principal amount of the Bonds, less an Underwriter’s discount in the amount of \$_____, and [plus][less] [net] original issue [premium][discount] of \$_____).

The Bonds will have the maturities and bear interest at the rates set forth on Exhibit A hereto. The Bonds will be subject to redemption as set forth in the Official Statement herein described. The Bonds will be dated as described in the Official Statement. The Bonds will be issued in book entry form only.

The District acknowledges and agrees that: (i) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm’s-length commercial transaction between the District and the Underwriter in which the Underwriter is acting solely as principal and not as agent of the District and the Underwriter is not acting as a municipal advisor (within the meaning

of Section 15B of The Securities Exchange Act of 1934, as amended), financial advisor or fiduciary to the District; (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to the District with respect to the transaction contemplated by this Purchase Contract and the discussions, undertakings or procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter has provided other services or is currently providing other services to the District on other matters); (iii) the only obligations the Underwriter has to the District with respect to the transaction contemplated by this Purchase Contract are expressly set forth in this Purchase Contract; (iv) the Underwriter has financial and other interest that differ from those of the District; and (v) the District has consulted its own financial and/or municipal legal, accounting, tax and other advisors, as applicable, to the extent the District has deemed appropriate. The District acknowledges that it has previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under Rule G-17 of the Municipal Securities Rulemaking Board (the “MSRB”).

2. Authorizing Instruments and Law. The Bonds shall be issued pursuant to the provisions of a resolution (the “Resolution”) adopted by the District on February __, 2017 authorizing the issuance of the Bonds. The Bonds are issued pursuant to an Indenture of Trust, dated as of March 1, 2017 (the “Indenture”), between the District and U.S. Bank National Association (the “Trustee”), and shall be as described in the Indenture.

The Bonds are limited obligations of the District payable primarily from and secured by certain revenues (the “Revenues”) pledged under the Indenture.

3. Offering the Bonds. The Underwriter agrees to offer all the Bonds to the public initially at the prices (or yields) set forth on the cover pages of the Official Statement of the District pertaining to the Bonds, dated ____, 2017 (the Official Statement, together with all appendices thereto, and with such changes therein and supplements thereto as are consented to in writing by the Underwriter, are herein called the “Official Statement”). Subsequent to the initial public offering of the Bonds, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices. The Underwriter also reserves the right to: (i) over-allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above those that might otherwise prevail in the open market and (ii) discontinue such stabilizing, if commenced, at any time without prior notice. “Public Offering” shall include an offering to a representative number of institutional investors or registered investment companies, regardless of the number of such investors to which the Bonds are sold.

4. Delivery of Official Statement on the Date Hereof. The District shall deliver to the Underwriter one copy of the Official Statement manually executed on behalf of the District by an authorized representative. The District shall also deliver a sufficient number of copies of the Official Statement to enable the Underwriter to distribute a single copy of each Official Statement to any potential customer of the Underwriter requesting an Official Statement during the time period beginning when the Official Statement becomes available and ending on the End Date (defined below). The District shall deliver these copies to the Underwriter within seven (7) business days after the execution of this Purchase Contract and in sufficient time to

accompany or precede any sales confirmation that requests payment from any customer of the Underwriter. The Underwriter shall inform the District in writing of the End Date, and covenants to file the Official Statement with the Municipal Securities Rulemaking Board (the “MSRB”) on a timely basis.

“End Date” as used herein is that date which is the earlier of:

(a) ninety (90) days after the end of the underwriting period, as defined in SEC Rule 15c2-12 adopted by the Securities and Exchange Commission on June 28, 1989 (“Rule 15c2-12”); or

(b) the time when the Official Statement becomes available from the MSRB, but in no event less than twenty-five (25) days after the underwriting period (as defined in Rule 15c2-12) ends.

The District has authorized the use of the Official Statement in connection with the public offering of the Bonds. The District also has consented to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement dated ____, 2017 relating to the Bonds in connection with the public offering of the Bonds (which, together with all appendices thereto, is herein called the “Preliminary Official Statement”). Authorized officers of the District have certified to the Underwriter that such Preliminary Official Statement was deemed to be final as of its date for purposes of Rule 15c2-12, with the exception of certain final pricing and related information referred to in Rule 15c2-12. The Underwriter has distributed a copy of the Preliminary Official Statement to potential customers on request.

5. The Closing. At 8:00 A.M., California time, on ____, 2017, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the District and the Underwriter, the District will deliver (i) the Bonds in book entry form through the facilities of The Depository Trust Company (“DTC”), and (ii) the closing documents hereinafter mentioned at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, or another place to be mutually agreed upon by the District and the Underwriter. The Underwriter will accept such delivery from the District. The Underwriter will pay the purchase price of the Bonds as set forth in Section 1 hereof by wire transfer of immediately available funds. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the “Closing.”

6. District Representations, Warranties and Covenants. The District represents, warrants and covenants to the Underwriter that:

(a) The District is a special district of the State of California (the “State”), duly organized and validly existing pursuant to the Constitution and laws of the State, and has all necessary power and authority to enter into and perform its duties under the Indenture, the Continuing Disclosure Certificate, dated the Closing Date (the “Continuing Disclosure Certificate”), of the District and this Purchase Contract (collectively, the “District Documents”).

(b) The Bonds, when issued in accordance with the Indenture, will be legally valid and binding special obligations of the District, entitled to the benefits of the Indenture and enforceable in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(c) To the best knowledge of the District, neither the execution and delivery of the District Documents, or the approval and execution of the Official Statement or this Purchase Contract, and compliance with the provisions on the District's part contained therein, nor the consummation of any other of the transactions herein and therein contemplated, nor the fulfillment of the terms hereof and thereof, materially conflicts with or constitutes a material breach of or default under nor materially contravenes any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the District is a party or is otherwise subject, nor does any such execution, delivery, adoption or compliance result in a security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the District under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the District Documents.

(d) The District Documents have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, constitute legal, valid and binding agreements of the District enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against cities in the State of California.

(e) Except as may be required under blue sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory agency having jurisdiction over the District required for the consummation by the District of the transactions contemplated by the Official Statement and this Purchase Contract.

(f) To the best of the knowledge of the District, there is, and on the Closing there will be, no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the District to restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the District Documents or the authority of the District to approve this Purchase Contract, or enter into the District Documents or contesting the powers of the District to enter into or perform its obligations under any of the foregoing or in any way contesting the powers of the District in connection with any action contemplated by this Purchase Contract or to restrain or enjoin the execution of, or, except as described in the Preliminary Official Statement and the Official Statement, the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal

of and interest on the Bonds, nor is there any basis for any such action, suit, proceeding or investigation.

(g) The Preliminary Official Statement provided to the Underwriter has been deemed final by the District, as required by Rule 15c2-12. As of the date thereof and at all times subsequent thereto up to and including the End Date, the information relating to the District, the Bonds, the Sewer System and the District Documents contained in the Official Statement was and will be materially complete for its intended purposes. The information relating to the District, the Bonds, the Sewer System and the District Documents contained in the Official Statement is true and correct in all material respects and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.

(h) The District agrees to cooperate with the Underwriter in endeavoring to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the District will not be required to execute a special or general consent to service of process in any jurisdiction in which it is not now so subject.

(i) By official action of the District prior to or concurrently with the execution hereof, the District has duly approved the distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the District of the obligations on its part contained in the District Documents and the consummation by it of all other transactions contemplated by the Official Statement and this Purchase Contract.

(j) To the best knowledge of the District, it is not in breach of or default under any material applicable law or administrative regulation of the State of California or the United States or any material applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the District is a party or is otherwise subject and in connection with which the District is obligated to make payments from its own funds, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument the consequence of which could be to materially and adversely affect the performance of the District under the District Documents.

(k) If between the date of this Purchase Contract and the End Date an event occurs, of which the District has knowledge, which might or would cause the information relating to the District, the Sewer System or the District's functions, duties and responsibilities contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading in any material respect, the District will notify the Underwriter, and if, in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the District will cooperate with the Underwriter in the preparation of an amendment or supplement to the Official Statement in a

form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid for by the District.

(l) If the information relating to the Sewer System, the District, its functions, duties and responsibilities contained in the Official Statement is amended or supplemented pursuant to the immediately preceding subparagraph, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date of the Closing, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading in any material respect.

(m) The District covenants that it will comply with all tax covenants relating to it in the District Documents, the Tax Certificate of the District and this Purchase Contract.

(n) Substantially all the proceeds from the sale of the Bonds (after deducting the expenses of issuance and sale of the Bonds paid for from such proceeds) will be used to refund the 2006 Obligation, and the District will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided in the Indenture.

(o) The District will deliver all opinions, certificates, letters and other instruments and documents reasonably required by the Underwriter and this Purchase Contract.

(p) Any certificate of the District delivered to the Underwriter shall be deemed a representation and warranty by the District to the Underwriter as to the statements made therein.

(q) As of the time of acceptance hereof and as of the Closing, the District does not, and will not have outstanding, any indebtedness which is secured by a lien on Revenues except as disclosed in the Official Statement.

(r) Between the date of this Purchase Contract and the date of Closing, the District will not, without the prior written consent of the Underwriter, and except as disclosed in the Official Statement, offer or issue any certificates, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, secured by a lien on Revenues or Net Revenues.

(s) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the District of its obligations in connection with, the District Documents have

been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

(t) The District has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the District is a bond issuer whose arbitrage certifications may not be relied upon.

(u) Except as otherwise described in the Preliminary Official Statement and Official Statement, the District has not failed in any material respect to comply with any undertaking of the District under Rule 15c2-12 in the previous five years.

7. Representations and Agreements of the Underwriter. The Underwriter represents to and agrees with the District that, as of the date hereof and as of the date of the Closing:

(a) The Underwriter is duly authorized to execute and deliver this Purchase Contract and to take any action under this Purchase Contract required to be taken by it.

(b) The Underwriter is in compliance with MSRB Rule G-37 with respect to the District, and is not prohibited thereby from acting as underwriter with respect to securities of the District.

(c) The Underwriter has, and has had, no financial advisory relationship with the District with respect to the Bonds, and no investment firm controlling, controlled by or under common control with the Underwriter has or has had any such financial advisory relationship, within the meaning of California Government Code Section 53590, or otherwise.

(d) The Underwriter has not paid or agreed to pay, nor will it pay or agree to pay, any entity, company, firm or person, other than a bona fide officer, agent or employee working for the Underwriter, any compensation, fee, gift or other consideration contingent upon or resulting from the award of or entering into this Purchase Contract.

(e) The Underwriter has reasonably determined that the undertaking to provide continuing disclosure with respect to the Bonds, pursuant to the Continuing Disclosure Agreement, is sufficient to effect compliance with Rule 15c2-12.

8. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the District of its respective obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations hereunder are and shall be subject to the following additional conditions:

(a) Bring-Down Representation. The representations, warranties and covenants of the District contained herein shall be true and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(b) Executed Agreements and Performance Thereunder. At the time of the Closing:

(i) the District Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter;

(ii) there shall be in full force and effect such resolution (the “Authorizing Resolution”) as, in the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation (“Bond Counsel”), shall be necessary in connection with the transactions on the part of the District contemplated by this Purchase Contract, the Official Statement and the District Documents;

(iii) the District shall perform or have performed its obligations required as specified in the District Documents to be performed at or prior to Closing; and

(iv) the Official Statement shall not have been supplemented or amended, except pursuant to Paragraph 6(k), or as otherwise may have been agreed to in writing by the Underwriter.

(c) No Default. At the time of the Closing, no default shall have occurred or be existing under the District Documents and the District shall not be in default in the payment of principal or interest on any of its bonded indebtedness which default shall adversely impact the ability of the District to make payments on the Bonds.

(d) Termination Events. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the District if at any time at or prior to the Closing:

(i) Any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or the Official Statement, or results in the Preliminary Official Statement or the Official Statement containing any untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or

(ii) Legislation shall be enacted by or introduced in the Congress of the United States or recommended to the Congress for passage by the President of the United States, or the Treasury Department of the United States or the Internal Revenue Service or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a court of the United States or of the State or the United States Tax Court shall be rendered, or an order, ruling, regulation (final,

temporary or proposed), press release, statement or other form of notice by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made or proposed, the effect of any or all of which would be to alter, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds, or the interest on the Bonds as described in the Official Statement, or other action or events shall have transpired which may have the purpose or effect, directly or indirectly, of changing the federal income tax consequences of any of the transactions contemplated herein; or

(iii) Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering, or sale of obligations of the general character of the Bonds, as contemplated hereby or by the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect; or

(iv) A general suspension of trading in securities on the New York Stock Exchange or any other national securities exchange, the establishment of minimum or maximum prices on any such national securities exchange, the establishment of material restrictions (not in force as of the date hereof) upon trading securities generally by any governmental authority or any national securities exchange, or any material increase of restrictions now in force (including, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter); or

(v) The declaration of a general banking moratorium by federal, New York or State authorities, or the general suspension of trading by the New York Stock Exchange, any national securities exchange, or any governmental authority securities exchange or a material disruption in securities settlement, payment or clearance services affecting the Bonds shall have occurred; or

(vi) Establishment of any new restrictions in securities materially affecting the free market for securities of the same nature as the Bonds (including the imposition of any limitations on interest rates) or the charge to the net capital requirements of the Underwriter established by

the New York Stock Exchange, the Securities and Exchange Commission, any other Federal or state agency or the Congress of the United States, or by Executive Order; or

(vii) The occurrence of an adverse event in the affairs of the District which, in the reasonable judgement of the Underwriter, materially impairs the investment quality of the Bonds; or

(viii) Any amendment to the federal or California Constitution or action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the District, its property, income or securities (or interest thereon), or the ability of the District to issue the Bonds and pledge the Revenues as contemplated by the Indenture and the Official Statement; or

(ix) There shall have occurred any (1) new material outbreak of hostilities (including, without limitation, an act of terrorism) or (2) new material other national or international calamity or crisis, or any material adverse change in the financial, political or economic conditions affecting the United States, including, but not limited to, an escalation of hostilities that existed prior to the date hereto; or

(x) There shall have occurred since the date of this Purchase Contract any materially adverse change in the affairs or financial position, results of operations or condition, financial or otherwise, of the District, other than changes in the ordinary course of business or activity or in the normal operation of the District, except as described in the Official Statement; or

(xi) An event described in Section 6(f) hereof shall have occurred which, in the reasonable judgment of the Underwriter, requires the preparation and publication of a supplement or amendment to the Official Statement; or

(xii) Any rating of the Bonds by a national rating agency shall have been withdrawn or downgraded or placed on negative outlook or negative watch; or

(xiii) Any proceeding shall have been commenced or be threatened in writing by the SEC against the District or the suspension by the SEC of trading in the outstanding securities of the District; or

(xiv) The purchase of and payment for the Bonds by the Underwriter, or the resale of the Bonds by the Underwriter, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission; or

(xv) Any rating of the Bonds or other obligations of the District by a national rating agency shall have been withdrawn or downgraded or placed on negative outlook or negative watch.

(e) Closing Documents. At or prior to the Closing, the Underwriter shall receive with respect to the Bonds (unless the context otherwise indicates) the following documents:

(1) Bond Opinion. The approving opinion of Bond Counsel dated the date of the Closing and substantially in the form included as APPENDIX C to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter and the Trustee to the effect that the foregoing opinion may be relied upon by the Underwriter to the same extent as if such opinion was addressed to them.

(2) Supplemental Opinion. A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in substantially the form and to the following effect:

(a) The statements and information relating to the District Documents and Bond Counsel's closing opinion contained in the Official Statement on the cover page and under the captions "INTRODUCTION," "THE BONDS" (except for the information under the caption "Book-Entry Only System"), "SECURITY FOR THE BONDS" and "TAX MATTERS," and in APPENDICES A and E, are true and accurate in all material respects; and

(b) The Bonds are exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended;

(c) The Purchase Contract and Continuing Disclosure Certificate have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, constitute legal, valid and binding agreements of the District enforceable against the District in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and equitable remedies if equitable remedies are sought, and except no opinion need be expressed as to the enforceability of the indemnification, waiver, choice of law or contributions provisions contained in the Purchase Contract.

(3) District Counsel Opinion. An opinion of the District's General Counsel, dated as of the Closing and addressed to Bond Counsel, the Trustee and the Underwriter, in form and substance acceptable to Bond Counsel and counsel for the Underwriter, to the following effect:

(i) the District is a special district, duly organized and validly existing under the Constitution and the laws of the State of California;

(ii) the preparation and distribution of the Preliminary Official Statement and the Official Statement and this Purchase Contract have been duly approved by the District;

(iii) the resolution of the District approving and authorizing the execution and delivery of the Official Statement, this Purchase Contract and the District Documents has been duly adopted at a meeting of the governing body of the District which was called and held pursuant to law, and with all public notice required by law and at which a quorum was present and acting throughout;

(iv) there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel, threatened against or affecting the District, which would adversely impact the District's ability to complete the transactions described in and contemplated by the Official Statement, to restrain or enjoin the payments under, or in any way contesting or affecting the validity of the District Documents, or the transactions described and defined in the Official Statement wherein an unfavorable decision, ruling or finding would adversely affect the validity and enforceability of the District Documents;

(v) the execution and delivery of the District Documents and the approval of the Official Statement, and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the District a breach of or default under any agreement or other instrument to which the District is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the District is subject;

(vi) the District Documents have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, constitute legal, valid and binding agreements of the District enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against public agencies in the State of California;

(vii) no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California is required for the valid authorization, execution and delivery of the District Documents and the approval of the Official Statement; and

(viii) without having undertaken any independent inquiry, nothing has come to their attention which would lead them to believe that the information relating to the District contained in the Official Statement contains an untrue

statement or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(4) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the District and the Underwriter, in form and substance acceptable to Bond Counsel and counsel for the Underwriter.

(5) Disclosure Counsel Opinion. An opinion, dated the date of the Closing addressed to the District and the Underwriter, of Jones Hall, a Professional Law Corporation, disclosure counsel, to the effect that based upon their participation in the preparation of the Official Statement as Disclosure Counsel to the District and without having undertaken to determine independently the accuracy or completeness of the contents in the Official Statement, such counsel has no reason to believe that the Official Statement, as of its date and as of the Closing Date (except for the financial statements and the other financial and statistical data included therein, The Depository Trust Company and the book entry system (as such terms are defined in the Official Statement), and in the Appendices thereto as to all of which no opinion or belief need be expressed) contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(6) District Certificate. A certificate, dated the date of the Closing, signed by a duly authorized official of the District satisfactory in form and substance to the Underwriter, (a) confirming as of such date the representations and warranties of the District contained in this Purchase Contract; (b) certifying that the District has complied with all agreements, covenants and conditions to be complied with by the District at or prior to the Closing under the District Documents; (c) certifying that to the best of such official's knowledge, no event affecting the District has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing the statements or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading in any material respect; and (d) certifying that the District has authorized and consented to the inclusion in the Official Statement of the District's financial report and accountant's opinion for the year ended June 30, 2016, and no further consent of any party is required for such inclusion.

(7) Trustee's Certificate. A Certificate of the Trustee, dated the date of Closing, addressed to the District and the Underwriter, in form and substance acceptable to counsel for the Underwriter to the following effect:

(i) The Trustee is duly organized and existing as a national banking association in good standing under the laws of the United States, having the full power and authority to accept and perform its duties under the Indenture;

(ii) Subject to the provisions of the Indenture, the Trustee will apply the proceeds from the Bonds to the purposes specified in the Indenture; and

(iii) The Trustee has duly authorized and executed the Indenture and authenticated the Bonds.

(8) Official Statement. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the District by a duly authorized officer of the District.

(9) District Documents. An original executed copy of each of the District Documents.

(10) District Resolution. A certified copy of the Resolution.

(11) IRS Form 8038-G. Evidence that the federal tax information form 8038-G has been prepared for filing.

(12) Nonarbitrage Certificate. A tax and nonarbitrage certificate in form satisfactory to Bond Counsel.

(13) Rating. Evidence that the Bonds have been rated as set forth in the Official Statement and that such ratings continue in effect as of the Closing.

(14) CDIAC Statement. A copy of the Notice of Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 53583 of the Government Code and Section 8855(g) of the Government Code.

(15) Escrow Verification. An escrow verification report of _____ (the “Verification Agent”) with respect to the refunding of the 2006 Obligation.

(16) Defeasance Opinion. A defeasance opinion of Bond Counsel with respect to the 2006 Obligation, dated the date of Closing, and addressed to the District, U.S. Bank National Association, as trustee for the 2006 Obligation, and the Underwriter.

(17) Underwriter’s Counsel Opinion. An opinion, dated the date of the Closing and addressed to the Underwriter, of Norton Rose Fulbright US LLP, counsel to the Underwriter, in such form as may be acceptable to the Underwriter.

(18) Additional Documents. Such additional certificates, instruments and other documents as the Underwriter may reasonably deem necessary, including, but not limited to: copies of the specimen Bonds, a blanket letter of representations as filed with DTC, and a copy of delivered notice of the defeasance of the 2006 Obligation.

If the District shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract may be terminated by the Underwriter, and neither the Underwriter nor the District shall be under any further obligation hereunder.

9. Expenses. The Underwriter shall be under no obligation to pay, and the District shall pay or cause to be paid, the expenses incident to the performance of the obligations of the District hereunder including but not limited to:

(a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the District Documents and the cost of preparing, printing, issuing and delivering the Bonds;

(b) the fees and disbursements of any counsel, financial advisors, accountants or other experts or consultants retained by the District;

(c) the fees and disbursements of Bond Counsel and Disclosure Counsel;

(d) the cost of preparation and printing the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement, including a reasonable number of copies thereof for distribution by the Underwriter;

(e) charges of rating agencies for the rating of the Bonds;

(f) the cost of printing of the District Documents; and

(g) the expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds.

The Underwriter shall pay: (i) the cost of preparation and printing of any “blue sky” filings; (ii) all “blue sky” filing fees in connection with the public offering of the Bonds; (iii) fees, if any, payable to the California Debt and Investment Advisory Commission, the MSRB, the fees associated with obtaining CUSIP numbers for the Bonds, and fees of the Public Securities Association and the California Public Securities Association in connection with the execution and delivery of the Bonds; and (iv) all other expenses incurred by them in connection with the public offering of the Bonds not outlined in (a) through (g) above, including the fees and disbursements of Underwriter’s Counsel and any advertising expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds. Any meals in connection with or adjacent to meetings, rating agency presentations, pricing activities or other transaction-related activities shall be considered an expense of the transaction and included in the expense component of the Underwriter’s discount. Some or all of the expenses to be paid by the Underwriter may be included as part of the expense component of the underwriting discount or commission or may be reimbursed to the Underwriter as out-of-pocket expenses.

10. Notice. Any notice or other communication to be given to the Underwriter may be given by delivering the same to Stern Brothers & Co., 14724 Ventura Boulevard, Suite 809, Sherman Oaks, California 91403 Attn.: Rich DeProspo. Any notice or other communication to be given to the District pursuant to this Purchase Contract may be given by delivering the same in writing to such entity, at the address set forth on the first page hereof.

11. Entire Agreement. This Purchase Contract, when accepted by the District, shall constitute the entire agreement between the District and the Underwriter and is made solely for the benefit of the District and the Underwriter (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All the District's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriter, until the earlier of (a) delivery of and payment for the Bonds hereunder, and (b) any termination of this Purchase Contract.

12. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

13. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

14. State of California Law Governs. The validity, interpretation and performance of the District Documents shall be governed by the laws of the State.

15. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the District without the prior written consent of the other parties hereto.

16. Definitions. Terms not otherwise defined herein shall have the same meaning as used in the Indenture.

STERN BROTHERS & CO., as Underwriter

By: _____
Authorized Representative

Accepted as of the date first stated above:

GARDEN GROVE SANITATION DISTRICT

By: _____
Title: _____

Date of Execution: _____, 2017

Time of Execution: _____

EXHIBIT A

**GARDEN GROVE SANITARY DISTRICT
REVENUE REFUNDING BONDS, SERIES 2017**

Maturity Date <u>(June 15)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>
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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 laws of any applicable jurisdiction.

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.

REGIONAL LOCATION MAP

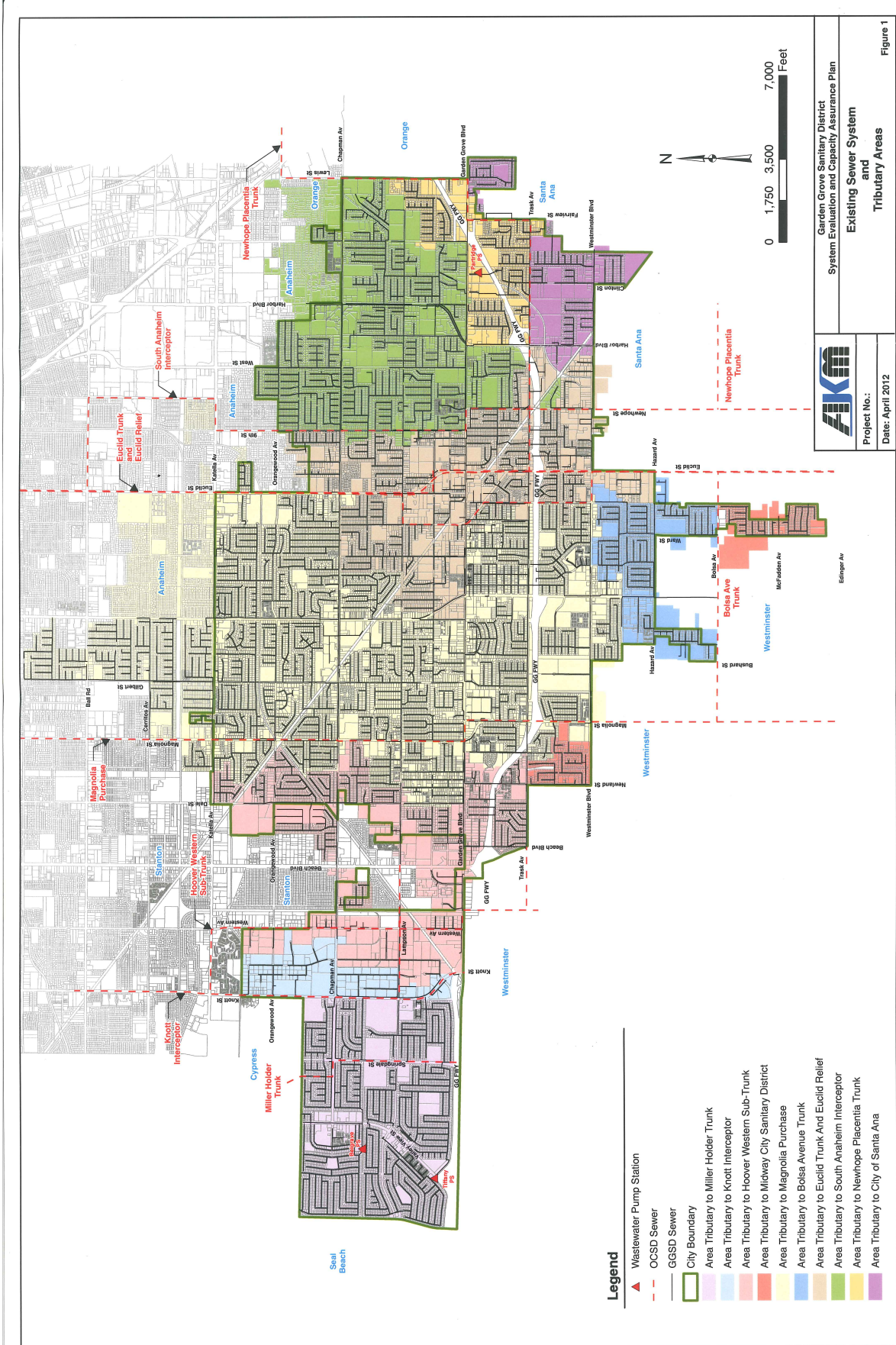


TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	BUDGETARY AND FINANCIAL PROCEDURES	21
FINANCING PLAN	3	FINANCIAL STATEMENTS	21
THE REFUNDING PLAN	3	HISTORIC OPERATING RESULTS	22
ESTIMATED SOURCES AND USES OF FUNDS	3	DEBT SERVICE COVERAGE	25
DEBT SERVICE SCHEDULE	4	CONSTITUTIONAL LIMITATIONS ON	
THE BONDS	5	APPROPRIATIONS AND CHARGES	26
AUTHORITY FOR ISSUANCE	5	ARTICLE XIII B	26
GENERAL PROVISIONS	5	PROPOSITION 218	26
TRANSFERS AND EXCHANGES UPON		PROPOSITION 26	28
TERMINATION OF BOOK ENTRY ONLY SYSTEM	6	FUTURE INITIATIVES	29
REDEMPTION OF THE BONDS	6	BOND OWNERS' RISKS	29
NOTICE OF REDEMPTION	7	LIMITED OBLIGATIONS	29
BOOK ENTRY ONLY SYSTEMS	7	ACCURACY OF ASSUMPTIONS	29
SECURITY FOR THE BONDS	9	SEWER SYSTEM DEMAND	30
PLEDGE AND ASSIGNMENT	9	SEWER SYSTEM EXPENSES	30
REVENUE FUND	9	PARITY OBLIGATIONS	30
ALLOCATION OF REVENUES	10	NATURAL DISASTERS	30
RATE COVENANTS	11	ENVIRONMENTAL REGULATION; FINANCIAL	
ADDITIONAL INDEBTEDNESS	12	RESPONSIBILITY FOR VIOLATIONS	31
RATE STABILIZATION FUND	13	RATE-SETTING PROCESS UNDER	
INSURANCE; RECONSTRUCTION, REPAIR		PROPOSITION 218	31
AND REPLACEMENT	13	LIMITED RECOURSE ON DEFAULT	31
THE SEWER SYSTEM	15	LIMITATIONS ON REMEDIES AVAILABLE;	
HISTORY AND GENERAL DESCRIPTION OF THE		BANKRUPTCY	32
SEWER SYSTEM	15	NO OBLIGATION TO TAX	32
SERVICE AREA	15	CHANGE IN LAW	32
TREATMENT AND DISPOSAL BY ORANGE		LOSS OF TAX EXEMPTION	32
COUNTY SANITATION DISTRICT	15	SECONDARY MARKET FOR BONDS	33
MAINTENANCE OF SEWER SYSTEM	16	TAX MATTERS	33
DESCRIPTION OF SYSTEM	16	CERTAIN LEGAL MATTERS	35
DISTRICT CUSTOMERS	18	LITIGATION	35
FUTURE SEWER CAPITAL PLANS	18	RATING	36
CURRENT RATE CHARGES	19	CONTINUING DISCLOSURE	36
COMPARATIVE RATES	20	VERIFICATION REPORT	36
PROPERTY TAX REVENUES	20	UNDERWRITING	37
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			
APPENDIX D: GENERAL INFORMATION ABOUT THE CITY OF GARDEN GROVE AND THE			
COUNTY OF ORANGE			
APPENDIX E: FORM OF OPINION OF BOND COUNSEL			
APPENDIX F: DTC AND THE BOOK-ENTRY ONLY SYSTEM			

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 Ending	Secured	Unsecured	Total 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		
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	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:

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

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.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
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**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (b)/(a)</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
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.

FINANCIAL IMPACT

The Water Services Division anticipates that the total cost to be approximately \$300,000, for Paulus Engineering to make emergency repairs of an 8-inch sewer line, residential lateral, and hotel housing for the resident.

RECOMMENDATION

It is recommended that the Sanitary District Board of Directors:

- Adopt the Resolution authorizing the General Manager or his designee to waive the formal bidding process as an emergency condition, declaring the necessity thereof, and authorizing staff to proceed with emergency repairs to the sewer line and sink hole on Lenore Street.

ATTACHMENTS:

Description	Upload Date	Type	File Name
Resolution	2/23/2017	Cover Memo	GGSD_Resolution_Approving_Sinkhole_on_Lenore_Emergency_Repairs_2-28-17.docx

GARDEN GROVE SANITARY DISTRICT

RESOLUTION NO.

RESOLUTION OF THE BOARD OF DIRECTORS OF THE GARDEN GROVE SANITARY DISTRICT AUTHORIZING THE GENERAL MANAGER OR HIS DESIGNEE TO WAIVE THE FORMAL BIDDING PROCESS AS AN EMERGENCY CONDITION, DECLARING THE NECESSITY THEREOF, AND AUTHORIZING STAFF TO PROCEED WITH EMERGENCY REPAIRS TO THE SEWER LINE BREAK AND SINK HOLE ON LENORE STREET

WHEREAS, Sections 22035 and 22050 of the Public Contracts Code provide that upon adoption by the Board of Directors by a four-fifths vote of a resolution declaring that the public interest and necessity demand the immediate expenditure of public funds to safeguard life, health, or property in order to proceed with emergency work without notice for bids to let a contract for such emergency work;

WHEREAS, the staff report accompanying this Resolution sets forth the facts supporting a finding that an emergency exists relating to the condition of the sewer line break and sinkhole on Lenore Street, between Springdale and Lamplighter Streets, and that the public interest and necessity demand the immediate expenditure of funds to repair the sewer line and street to safeguard life, health or property;

WHEREAS, Section 22050 also provides that the resolution may delegate to the General Manager, or other officer, the authority to order any action required by the emergency and to procure the necessary equipment, services, and supplies for those purposes, without giving notice for bids to let the contracts; and

WHEREAS, the General Manager has ordered that the work commence in order to repair the sewer line and street as expeditiously as possible.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE GARDEN GROVE SANITARY DISTRICT HEREBY RESOLVES, FINDS AND DETERMINES AS FOLLOWS:

1. That the public interest and necessity demand the immediate expenditure of public funds to safeguard life, health, or property in order to proceed with emergency work for the repair of the sewer line break and sinkhole on Lenore Street.
2. That the emergency will not permit a delay that would result from a competitive solicitation for bids and that action is necessary to respond to the emergency related to the conditions of the well.
3. That the General Manager or his designee is hereby authorized to order any action required to remedy the emergency relating to the sewer line break and sinkhole and to procure the necessary equipment, services, and supplies for those purposes, without giving notice for bids to let contracts.

4. That to the extent the General Manager has already authorized the work to be commenced, the General Manager's actions authorizing the emergency work are hereby approved and ratified.