

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 23, 2021

TWO NEW ISSUES—FULL BOOK ENTRY

RATINGS:

S&P: “ ” (-Insured)
S&P: “ ” (Underlying)
See “RATINGS” herein

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the Authority and the City with certain covenants, interest on the Series B Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax. Interest on the Series A Bonds is not excludable from gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See “TAX MATTERS” herein for a more complete discussion.



\$ _____ *
Coalinga Public Financing Authority
(Fresno County, California)
Revenue Bonds, Series 2021A
(Water and Wastewater Projects)
(Federally Taxable)

\$ _____ *
Coalinga Public Financing Authority
(Fresno County, California)
Revenue Bonds, Series 2021B
(Water Project)
(Tax-Exempt)

Dated: Date of Delivery

Due: April 1, as shown on the inside cover

The \$ _____ * Coalinga Public Financing Authority (Fresno County, California) Revenue Bonds, Series 2021A (Water and Wastewater Projects) (Federally Taxable) (the “Series A Bonds”), and the \$ _____ * Coalinga Public Financing Authority (Fresno County, California) Revenue Bonds, Series 2021B (Water Project) (Tax-Exempt) (the “Series B Bonds”) and, with the Series A Bonds, the “Bonds”), 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 of the Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased but will receive a credit balance in the records of DTC. Principal of and interest on the Bonds are payable directly to DTC by Wells Fargo Bank, National Association, Los Angeles, California, as trustee (the “Trustee”). Principal is payable on April 1 in the years set forth on the inside cover. Interest is payable semiannually on each April 1 and October 1, commencing October 1, 2021. Upon receipt of payments of principal of and interest on the Bonds, DTC is obligated in turn to remit such principal and interest to the DTC Participants (as defined herein) for subsequent disbursement to purchasers of the Bonds, as described herein.

The Bonds are subject to optional and mandatory redemption prior to maturity. See “THE BONDS—Redemption” herein.

The Series A Bonds are special obligations of the Coalinga Public Financing Authority (the “Authority”) payable from the revenues pledged under the Indenture of Trust, dated as of March 1, 2021, by and between the Authority and the Trustee, consisting primarily of installment payments (the “Water Installment Payments”) to be made by the City of Coalinga (the “City”) under an installment sale agreement, dated as of March 1, 2021, by and between the Authority and the City (the “Water Installment Sale Agreement”), and installment payments (the “Wastewater Installment Payments”) to be made by the City under an installment sale agreement, dated as of March 1, 2021, by and between the Authority and the City (the “Wastewater Installment Sale Agreement”). The Series B Bonds are special obligations of the Authority payable from the revenues pledged under the Indenture consisting primarily of the Water Installment Payments. The Water Installment Payments are secured by a pledge of and lien on the net revenues of the City’s municipal water enterprise (the “Water System”). The Wastewater Installment Payments are secured by a pledge of and lien on the net revenues of the City’s municipal wastewater enterprise (the “Wastewater System”).

The Series A Bonds are being issued to (a) provide for the advance refunding of the Authority’s Revenue Bonds, Series 2012 (Water and Wastewater Financing Projects), (b) fund a portion of the cost of a municipal bond insurance reserve fund policy in lieu of cash funding a reserve fund for the Bonds, and (c) pay a portion of the costs of issuance of the Bonds, including the premium for a municipal bond insurance policy issued for the Series A Bonds.

The Series B Bonds are being issued to (a) finance the Water Improvement Project (as defined herein), (b) fund a portion of the cost of a municipal bond insurance reserve fund policy in lieu of cash funding a reserve fund for the Bonds, and (c) pay a portion of the costs of issuance of the Bonds, including the premium for a municipal bond insurance policy issued for the Series B Bonds.

Neither the Bonds nor the obligation of the City to make the Water Installment Payments or the Wastewater Installment Payments constitutes an obligation of the City or the Authority for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Authority has no taxing power. Neither the Bonds nor the obligation of the City to make Water Installment Payments under the Water Installment Sale Agreement or to make Wastewater Installment Payments under the Wastewater Installment Sale Agreement constitutes a debt of the City, the County of Fresno, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

The following firm, serving as municipal advisor to the City, has structured this issue:



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under insurance policies to be issued concurrently with the delivery of the Bonds by _____. See “MUNICIPAL BOND INSURANCE” herein.

[INSURER LOGO]

MATURITY SCHEDULES

See inside front cover

THIS COVER PAGE CONTAINS INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. POTENTIAL PURCHASERS OF THE BONDS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval of legality by Quint & Thimmig LLP, Larkspur, California, Bond Counsel. Certain matters will be passed upon for the Authority and the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, for the Authority and the City by Giswold, LaSalle, Cobb, Dowd & Gin, LLP, Hanford, California, the City Attorney, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is expected that the Bonds, in book-entry form, will be available for delivery on or about March 16, 2021.



Dated: March __, 2021

*Preliminary, subject to change.

\$ _____ *

Coalinga Public Financing Authority
(Fresno County, California)
Revenue Bonds, Series 2021A
(Water and Wastewater Projects)
(Federally Taxable)

MATURITY SCHEDULE

\$ _____ Serial Bonds

CUSIP† Prefix: _____

<u>Maturity</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP†</u> <u>Suffix</u>
---	---	--	---------------------	---------------------	--

\$ _____ % Term Bonds due April 1, _____, Price: _____ % to Yield _____ %; CUSIP† _____

\$ _____ *

Coalinga Public Financing Authority
(Fresno County, California)
Revenue Bonds, Series 2021B
(Water Project)
(Tax-Exempt)

MATURITY SCHEDULE

\$ _____ Serial Bonds

CUSIP† Prefix: _____

<u>Maturity</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP†</u> <u>Suffix</u>
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\$ _____ % Term Bonds due April 1, _____, Price: _____ % to Yield _____ %; CUSIP† _____

*Preliminary, subject to change.

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For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the Authority with respect to the Bonds that has been deemed "final" by the Authority as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

The information set forth in this Official Statement has been obtained from official sources and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. 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.

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. No assurance is given that actual results will meet the Authority's or the City's forecasts in any way, regardless of the level of optimism communicated in the information. The Authority is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See "CONTINUING DISCLOSURE" herein.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The execution, sale and delivery of the Bonds has not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

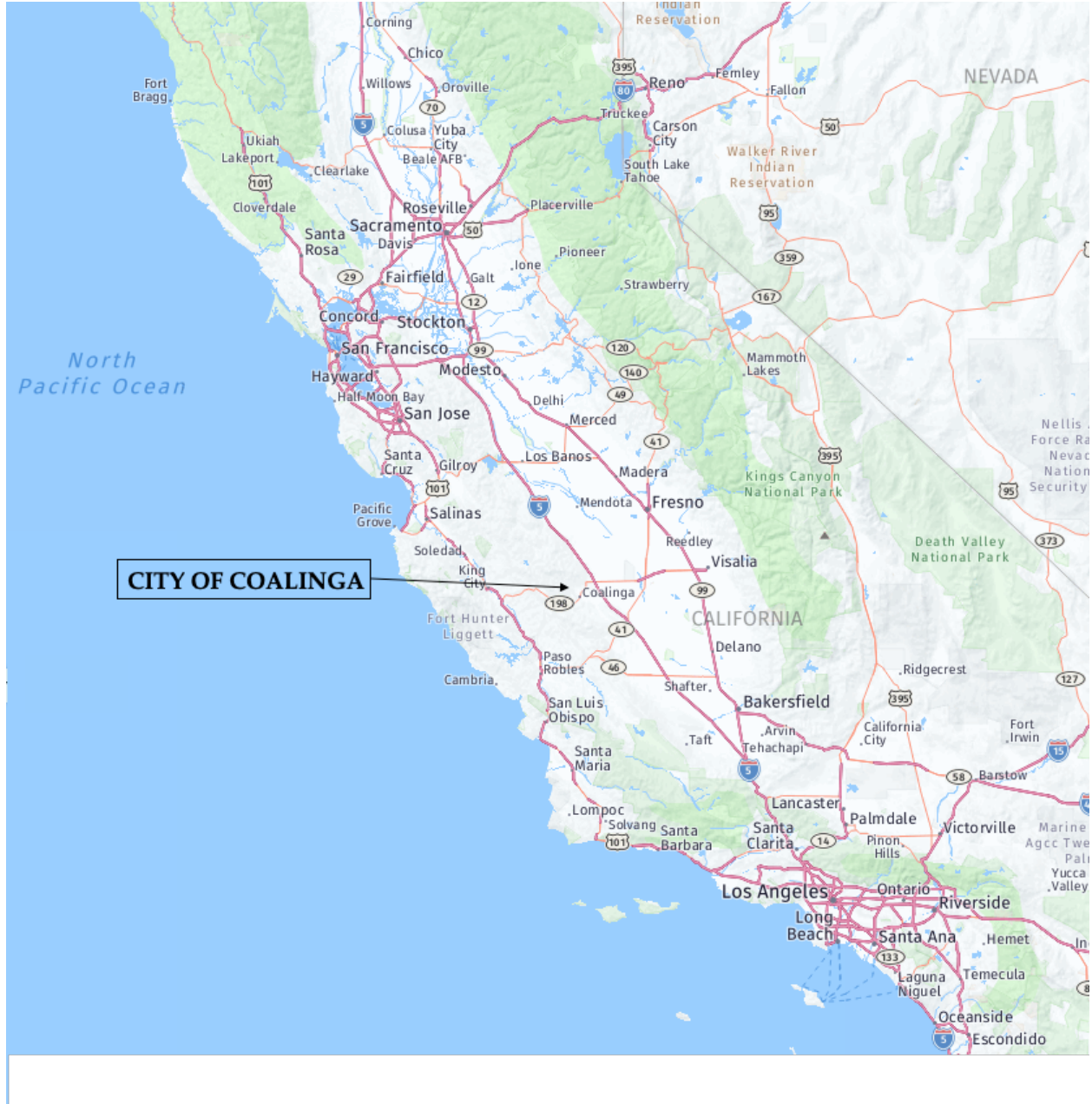
_____ (the "Municipal Bond Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Municipal Bond Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Municipal Bond Insurer supplied by the Municipal Bond Insurer and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX H—SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

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

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LOCATION MAP



COALINGA PUBLIC FINANCING AUTHORITY

CITY OF COALINGA

155 West Durian
Coalinga, CA 93210
(559) 935-1533
<http://www.coalinga.com>

AUTHORITY BOARD OF DIRECTORS AND CITY COUNCIL

Ron Ramsey, *Chair/Mayor*
James Horn, *Vice Chair/Mayor Pro-Tem*
Adam Adkisson, *Boardmember/Councilmember*
Jose Manny Ramirez, *Boardmember/Councilmember*
Ray Singleton, *Boardmember/Councilmember*

AUTHORITY/CITY STAFF

Marissa Trejo, *Executive Director/City Manager*
Sean Brewer, *Assistant Executive Director/Assistant City Manager*
Jasmin Bains, *Financial Services Director*
Dawn Kahikina, *Treasurer*
Mario Zamora, Esq., *Authority Counsel/City Attorney*
Shannon Jensen, *Authority Secretary/City Clerk*

SPECIAL SERVICES

Wulff Hansen & Co.
San Rafael, California
Municipal Advisor

Wells Fargo Bank, National Association
Los Angeles, California
Trustee

U.S. Bank National Association
San Francisco, California
Escrow Bank

Robert Thomas CPA, LLC
Minneapolis, Minnesota
Verification Agent

Quint & Thimmig LLP
Larkspur, California
Bond Counsel and Disclosure Counsel

\$ _____ *

COALINGA PUBLIC FINANCING AUTHORITY
(Fresno County, California)
Revenue Bonds, Series 2021A
(Water and Wastewater Projects)
(Federally Taxable)

\$ _____ *

COALINGA PUBLIC FINANCING AUTHORITY
(Fresno County, California)
Revenue Bonds, Series 2021B
(Water Project)
(Tax-Exempt)

INTRODUCTION

The following introduction presents a brief description of certain information in connection with the Bonds (as defined below) and is qualified in its entirety by reference to the entire Official Statement and the documents summarized or described herein. References to, and summaries of, provisions of the Constitution and the laws of the State of California (the “State”) and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions thereof. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms in the Indenture. See APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Definitions.

General

The purpose of this Official Statement is to provide certain information concerning the issuance, sale and delivery by the Coalinga Public Financing Authority, a joint exercise of powers entity organized and existing under the laws of the State (the “Authority”), of its Coalinga Public Financing Authority (Fresno County, California) Revenue Bonds, Series 2021A (Water and Wastewater Projects) (Federally Taxable), in the aggregate principal amount of \$ _____ * (the “Series A Bonds”), and its Coalinga Public Financing Authority (Fresno County, California) Revenue Bonds, Series 2021B (Water Project) (Tax-Exempt), in the aggregate principal amount of \$ _____ * (the “Series B Bonds” and, with the Series A Bonds, the “Bonds”).

The Series A Bonds are special obligations of the Authority payable from the revenues pledged under the Indenture of Trust, dated as of March 1, 2021 (the “Indenture”), by and between the Authority and Wells Fargo Bank, National Association, Los Angeles, California, as trustee (the “Trustee”), consisting primarily of installment payments (the “Water Installment Payments”) to be made by the City of Coalinga (the “City”) under an installment sale agreement, dated as of March 1, 2021, by and between the Authority and the City (the “Water Installment Sale Agreement”), and installment payments (the “Wastewater Installment Payments”) to be made by the City under an installment sale agreement, dated as of March 1, 2021, by and between the Authority and the City (the “Wastewater Installment Sale

* Preliminary, subject to change.

Agreement” and, with the Water Installment Sale Agreement, the “Installment Sale Agreements”). The Series B Bonds are special obligations of the Authority payable from the revenues pledged under the Indenture consisting primarily of the Water Installment Payments. The Water Installment Payments are secured by a pledge of and lien on the net revenues (the “Water System Net Revenues”) of the City’s municipal water enterprise (the “Water System”). The Wastewater Installment Payments are secured by a pledge of and lien on the net revenues (the “Wastewater System Net Revenues”) of the City’s municipal Wastewater enterprise (the “Wastewater System”).

The Authority

The Authority is a joint exercise of powers entity, organized pursuant to a Joint Exercise of Powers Agreement, dated February 17, 1991, by and among the City, the Coalinga Redevelopment Agency (the “Agency”) and the Coalinga-Huron Unified School District (the “School District”) to provide, in part, for the financing of public capital improvements by the City. See “THE AUTHORITY.”

The City

The City, a general law city incorporated on April 3, 1906, is located the southwestern tip of Fresno County (the “County”) and the western San Joaquin Valley, in central California. The City is located 52 miles (84 km) southwest of Fresno, 10 miles west of I-5 and sits at an elevation of 673 feet (205 m). The City occupies a land area of 6.61 square miles and serves a population of approximately 17,200. The City is surrounded by hills and ranches. Monterey County lies to the west of the City and Kings County sits to the east.

Members of the City Council of the City (the “City Council”) are elected by district from five districts within the City for overlapping four-year terms. The policies of the City Council are carried out by the appointed City Manager. For certain information with respect to the City, see “THE CITY” and APPENDIX A — GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY.

The City owns and operates the Water System which provides potable water service to residents and businesses in the City and the Wastewater system which provides sewer service to residents and businesses in the City.

The Water System

The City’s Public Works Department operates and maintains the Water System, which consists of filtration, storage, distribution and transmission facilities. The City purchases its raw water supplies from California’s Central Valley Project through a contract with the United States Department of Interior’s Bureau of Reclamation. For a discussion of the Water System, see “THE WATER SYSTEM” herein.

The Wastewater System

The City’s Public Works Department operates and maintains the Wastewater System which consists of a collection system, sanitary sewer pipeline, lift stations, and a treatment plant. For a discussion of the Wastewater System, see “THE WASTEWATER SYSTEM” herein.

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code, the Indenture and resolutions of the governing body of the Authority and of the City Council of the City adopted on February 4, 2021.

Purpose of the Bonds

The Series A Bonds are being issued to (a) in part to provide for the advance refunding of the Authority's Revenue Bonds, Series 2012 (Water and Wastewater Financing Projects), (b) fund a portion of the cost of a municipal bond insurance reserve fund policy in lieu of cash funding a reserve fund for the Bonds (the "Reserve Policy"), and (c) pay the costs of issuance of the Series A Bonds, including the premium for a municipal bond insurance policy issued for the Series A Bonds (the "Series A Municipal Bond Insurance Policy").

The Series B Bonds are being issued to (a) finance the Water Improvement Project (as defined herein), (b) fund a portion of the cost of the Reserve Policy, and (c) pay a portion of the costs of issuance of the Series B Bonds, including the premium for a municipal bond insurance policy for the Series B Bonds (the "Series B Municipal Bond Insurance Policy" and, with the Series A Municipal Bond Insurance Policy, the "Municipal Bond Insurance Policies."

See "THE FINANCING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security and Source of Repayment

In accordance with the Water Installment Sale Agreement, the City is required to make Water Installment Payments to the Trustee for the account of the Authority. In accordance with the Wastewater Installment Sale Agreement, the City is required to make Wastewater Installment Payments to the Trustee for the account of the Authority. The Water Installment Payments are designed to be sufficient, in both time and amount, to pay, when due, the principal of, and interest on, the Series A Bonds that are allocable to the Water System and the principal of, and interest on, the Series B Bonds. The Wastewater Installment Payments are designed to be sufficient, in both time and amount, to pay, when due, the principal of, and interest on, the Series A Bonds that are allocable to the Wastewater System. The Water Installment Payments are designed to be sufficient, in both time and amount, to pay, when due, the principal of, and interest on, the Series B Bonds. The City is also required to make additional payments in the amount of any taxes, assessments, insurance premiums, expenses of the Authority and the Trustee incidental to the sale and delivery of the Bonds, administrative costs or charges of the Authority in connection with the Water Improvement Project and costs and expenses which the Authority may incur as a consequence of a default by the City. See APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Installment Sale Agreements.

The City's obligations with respect to the Water Installment Sale Agreement and any additional obligations hereafter issued and incurred on a parity as to payment and security with the Water Installment Payments (collectively, the "Water System Parity Obligations") are secured by a first lien on the Water System Net Revenues. The City has covenanted in the Water Installment Sale Agreement that it will not issue any obligations senior to the Water Installment Payments and Water System Parity Obligations.

The City's obligations with respect to the Wastewater Installment Sale Agreement and any additional obligations hereafter issued and incurred on a parity as to payment and security with the Wastewater Installment Payments (collectively, the "Wastewater System Parity Obligations") are secured by a first lien on the Wastewater System Net Revenues. The City has covenanted in the Wastewater Installment Sale Agreement that it will not issue any obligations senior to the Wastewater Installment Payments and Wastewater System Parity Obligations.

THE OBLIGATION OF THE CITY TO MAKE THE WATER INSTALLMENT PAYMENTS AND THE WASTEWATER INSTALLMENT PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE AUTHORITY, THE CITY, THE COUNTY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY, THE CITY, THE COUNTY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

"Wastewater System" means any and all facilities now existing or hereafter acquired or constructed which are owned, controlled or operated by or for the City for the collection, treatment, disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, oxidation ponds, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification, reclamation or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

"Wastewater System Gross Revenues" means all user fee charges derived by the City from, the ownership and operation of the Wastewater System, including but not limited to investment earnings thereon.

"Wastewater System Net Revenues" means, for any period, an amount equal to all of the Wastewater System Gross Revenues received during such period minus the amount required to pay all Wastewater System Operation and Maintenance Costs becoming payable during such period.

"Wastewater System Operation and Maintenance Costs" means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Wastewater System, including but not limited to (a) costs of electricity and other forms of energy supplied to the Wastewater System, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and (c) the reasonable administrative costs of the City attributable to the operation and maintenance of the Wastewater System; but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Wastewater System including but not limited to the Wastewater Installment Payments and any Wastewater System Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Water System" means all land and facilities used and useful by the City for the production, storage, conveyance, treatment and distribution of water now owned by the City, together with all additions, betterments, extensions or improvements to such facilities or any part thereof hereafter acquired or constructed by the City and other real or personal property useful in connection therewith.

“Water System Gross Revenues” means all user fee charges derived by the City from, the ownership and operation of the Water System, including but not limited to investment earnings thereon.

“Water System Net Revenues” means, for any period, an amount equal to all of the Water System Gross Revenues received during such period minus the amount required to pay all Water System Operation and Maintenance Costs becoming payable during such period.

“Water System Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Water System, including but not limited to (a) costs of electricity and other forms of energy supplied to the Water System, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (c) the reasonable administrative costs of the City attributable to the operation and maintenance of the Water System; but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Water System including but not limited to the Water Installment Payments and any Water System Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

See “SECURITY FOR THE BONDS.”

Other than the Water Installment Payments, after the refunding of the 2012 Bonds, there will be no other outstanding obligations secured by Water System Net Revenues. Other than the Wastewater Installment Payments, after the refunding of the 2012 Bonds, there will be no other outstanding obligations secured by Wastewater System Net Revenues.

Municipal Bond Insurance Policies; Reserve Account Insurance Policy

The scheduled payment of the principal of and interest on the Series A Bonds when due will be guaranteed under the Series A Municipal Bond Insurance Policy to be issued by _____ (the “Municipal Bond Insurer”) simultaneously with the issuance of the Series A Bonds. The scheduled payment of the principal of and interest on the Series B Bonds when due will be guaranteed under the Series B Municipal Bond Insurance Policy to be issued by the Municipal Bond Insurer simultaneously with the issuance of the Series B Bonds. See “MUNICIPAL BOND INSURANCE.”

In addition, the Municipal Bond Insurer has made a commitment to issue the Reserve Policy in an amount equal to the Reserve Requirement. See “SOURCES OF PAYMENT FOR THE BONDS—Reserve Account.”

Redemption of the Bonds

The Bonds are subject to redemption prior to their stated maturity dates, as provided herein. See “THE BONDS—Terms of Redemption.”

Book-Entry Form

The Bonds will be delivered in fully registered form only and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in

denominations of \$5,000 or any integral multiple thereof, in book-entry form only. Principal, premium, if any, and interest are payable directly to DTC by the Trustee. Upon receipt of payments of principal of, premium, if any, and interest on the Bonds, DTC is obligated to remit such principal, premium, if any, and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry Only System” below and APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

Continuing Disclosure

The City will covenant, pursuant to a continuing disclosure certificate (the “Continuing Disclosure Certificate”) to be executed on the date of delivery of the Bonds, for the benefit of owners and beneficial owners of the Bonds, to provide certain financial information and operating data related to the Water System and the Wastewater System by not later than nine months following the end of the City’s Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and any notices of enumerated events is summarized below under the caption “CONTINUING DISCLOSURE.” The form of the Continuing Disclosure Certificate is set forth in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The covenants of the City in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5), as amended (the “Rule”).

Tax Matters

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the Authority and the City with certain covenants, interest on the Series B Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See “TAX MATTERS.” Interest on the Series A Bonds is not excludable from gross income of the owners thereof for federal income tax purposes.

Professionals Involved in the Offering

The proceedings of the Authority and the City in connection with the issuance of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, Larkspur, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, and by Griswold, LaSalle, Cobb, Dowd & Gin, LLP, Hanford, California, Authority Counsel and City Attorney. Wells Fargo Bank, National Association, Los Angeles, California, will act as the Trustee under the Indenture. U.S. Bank National Association, San Francisco, California, will act as the Escrow Bank under the Escrow Agreement. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. The fees of Bond Counsel, Disclosure Counsel, counsel to the Underwriter and the Trustee are contingent upon the sale and delivery of the Bonds.

Forward-Looking Statements

This Official Statement, and particularly the information contained under the headings entitled “THE FINANCING PLAN—Water Improvement Project,” “THE WATER SYSTEM,” “THE WASTEWATER SYSTEM,” “RISK FACTORS RELATING TO THE BONDS” and APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY, contains statements relating to future results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 2000. When used in this Official Statement, the words “estimate,” “forecast,” “intend,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See “RISK FACTORS RELATING TO THE BONDS” and “TAX MATTERS.”

Other Matters

There follows in this Official Statement brief descriptions of the Bonds, the security for the Bonds, the Indenture, the Authority, the City, the Water System, the Wastewater System, the Water Improvement Project and certain other information relevant to the issuance of the Bonds. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all its respective terms and conditions. All statements herein with respect to such documents are qualified in their entirety by reference to each such document for the complete details of all of their respective terms and conditions. All statements herein with respect to certain rights and remedies are qualified by reference to laws and principles of equity relating to or affecting creditors’ rights generally. See APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.

The information and expressions of opinion herein speak only as of the date of this Official Statement and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

All financial and other information presented in this Official Statement has been provided by the Authority and the City from their records, except for information expressly attributed to other sources. The presentation of information, including the table of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the Authority or the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Other Information

Copies of the documents are on file and, upon request and payment to the City of a charge for copying, mailing and handling, from the Finance Director, City of Coalinga, 155 West Durian, Coalinga, CA 93210, Telephone: (559) 935-1533.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement, under any circumstances, creates any implication that there has been no change in the affairs of the City or the Authority since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City or the Authority. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

THE FINANCING PLAN

The Series A Bonds are being issued to (a) in part to provide for the advance refunding of the 2012 Bonds, (b) fund a portion of the cost of the Reserve Policy, and (c) pay the costs of issuance of the Series A Bonds, including the premium for the Series A Municipal Bond Insurance Policy.

The Series B Bonds are being issued to (a) finance the Water Improvement Project, (b) fund a portion of the cost of Reserve Policy, and (c) pay a portion of the costs of issuance of the Series B Bonds, including the premium for the Series B Municipal Bond Insurance Policy.

Refunding of the 2012 Bonds. A portion of the proceeds of the Series A Bonds, together with amounts held in certain funds established in connection with the 2012 Bonds, will be deposited into an escrow fund (the “Escrow Fund”) established under an escrow agreement (the “Escrow Agreement”) by and between the City and U.S. Bank National Association, as escrow agent (the “Escrow Bank”). A portion of the amounts deposit in the Escrow Fund will be invested in direct obligations of the United States of America (the “Escrowed Securities”). The maturing Escrowed Securities, the investment earnings thereon and the cash in the Escrow Fund will be applied to pay the principal of and interest on the 2012 Bonds to and including April 1, 2022, and for the redemption of all outstanding 2012 Bonds on April 1, 2022 (the “Redemption Date”), at a redemption price equal to 100% of the principal amount thereof (the “Redemption Price”).

Robert Thomas CPA, LLC, Minneapolis, Minnesota (the “Verification Agent”), will verify that the maturing Escrowed Securities, the investment earnings thereon and the cash in the Escrow Fund will be sufficient to pay the principal of and interest on the 2012 Bonds to and including April 1, 2022, and for the redemption of all outstanding 2012 Bonds on the Redemption Date at the Redemption Price. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

The 2012 Bonds to be refunded are shown in the following table*:

Maturity Date	Principal Amount Refunded	Interest Rate	Redemption Date	Redemption Price	CUSIP† Number
4/1/21	\$ 225,000	3.750%	—	—	19021E FM1
4/1/22	235,000	3.875	—	—	19021E FN9
4/1/23	240,000	4.100	4/1/22	100.000	19021E FP4
4/1/24	250,000	4.250	4/1/22	100.000	19021E FQ2
4/1/25	265,000	4.375	4/1/22	100.000	19021E FR0
4/1/30	1,525,000	5.000	4/1/22	100.000	19021E FW9
4/1/35	1,860,000	5.000	4/1/22	100.000	19021E FY5
4/1/48	7,600,000	5.000	4/1/22	100.000	19021E FZ2

The cash and the Escrowed Securities on deposit held in the Escrow Fund will be pledged to the redemption of the 2012 Bonds and will not be available for the payment of the Bonds.

The Water Improvement Project. A portion of the proceeds of the Series B Bonds will be applied to finance the Water Improvement Project. The Water Improvement Project consists of various improvements to the Water System.

ESTIMATED SOURCES AND USES OF PROCEEDS

	Series A Bonds	Series B Bonds	Total
SOURCES			
Par Amount of Bonds			
Plus: Original Issue Premium			
Total Sources			
USES			
Deposit to Escrow Fund ⁽¹⁾			
Deposit to Water Improvement Project Fund ⁽²⁾			
Costs of Issuance ⁽³⁾			
Total Uses			

⁽¹⁾ Represents amount required to defease the 2012 Bonds.

⁽²⁾ Represents the amount required to finance the Water Improvement Project.

⁽³⁾ Includes the Underwriter's discount, legal and financing costs, printing costs, fees of the rating agency, initial fees of the Trustee, the premiums for the Municipal Bond Insurance Policies and the Reserve Policy and other costs related to the issuance of the Bonds.

* Preliminary, subject to change.

† Copyright 2021, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services.

DEBT SERVICE REQUIREMENTS

Annual debt service on the Bonds (assuming no redemptions of the Bonds other than sinking fund redemptions) is presented below.

Year Ending April 1	Series A Bonds			Series B Bonds			Total
	Principal ⁽¹⁾	Interest	Total	Principal ⁽¹⁾	Interest	Total	
Totals							

⁽¹⁾ Includes mandatory sinking fund installments.

Payments made by the City under the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement are scheduled, in time and amount to pay the debt service on the Bonds.

Year Ending April 1	Water Installment Sale Agreement		Wastewater Installment Sale Agreement	Total
	2012 Refunding	Water Improvement Project	2012 Refunding	
Totals				

THE BONDS

General Provisions

The Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. The Bonds will mature on April 1 in each of the years and in the amounts and will bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates set forth on the inside cover page hereof.

Interest on the Bonds will be payable semiannually on each April 1 and October 1, commencing October 1, 2021 (each, an “Interest Payment Date”), to the person whose name appears on the Registration Books as the Owner thereof as of the 15th calendar day of the month immediately preceding each such

Interest Payment Date (each, a “Record Date”), such interest to be paid by check of the Trustee mailed by first-class mail to the Owners at the respective addresses of such Owners as they appear on the Registration Books; provided, however, that payment of interest may be made by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who furnishes written wire instructions to the Trustee at least five days before the applicable Record Date. Principal of any Bond and any premium upon redemption will be paid by check of the Trustee upon presentation and surrender thereof at the corporate trust office of the Trustee, except as provided in APPENDIX G—BOOK-ENTRY ONLY SYSTEM. Principal of and interest and premium (if any) on the Bonds will be payable in lawful money of the United States of America.

Each Bond will be dated as of its date of delivery and will bear interest from the Interest Payment Date next preceding such 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) it is authenticated on or before March 15, 2021, in which event it will bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Book-Entry Only System

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the Bonds so purchased. Individual purchases will be made in book-entry-only form. Purchasers will not receive a certificate representing their beneficial ownership interest in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders, holders or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” shall mean the person for whom a Participant (as defined herein) acquires an interest in the Bonds. See APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

In the event the use of the book-entry-only system is discontinued, principal of the Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California. Interest payable on the Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Bond is registered in the registration books maintained by the Trustee as of the applicable Record Date for such Interest Payment Date.

Transfer and Exchange

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Whenever any Bonds or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee may require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Any Bond may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. The Trustee shall require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Terms of Redemption

Optional Redemption.

Series A Bonds. The Series A Bonds are subject to redemption, at the option of the City, on any date on or after April 1, _____, as a whole or in part, by such maturities as shall be determined by the City, and by lot within a maturity, from prepayments of Water Installment Payments and/or Wastewater Installment Payments made at the option of the City pursuant to the Water Installment Sale Agreement and/or the Wastewater Installment Sale Agreement, from any available source of funds, at a redemption price equal to the principal amount of the Series A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Series B Bonds. The Series B Bonds are subject to redemption, at the option of the City, on any date on or after April 1, _____, as a whole or in part, by such maturities as shall be determined by the City, and by lot within a maturity, from prepayments of the Water Installment Payments made at the option of the City pursuant to the Water Installment Sale Agreement, from any available source of funds, at a redemption price equal to the principal amount of the Series B Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption.

Series A Bonds. The Series A Bonds maturing on April 1, _____ (the “_____ Series A Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on April 1, _____, and on April 1 in each year thereafter to and including April 1, _____, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the _____ Series A Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the _____ Series A Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Redemption Date (April 1)	Principal Amount
_____	_____

† Maturity.

The Series A Bonds maturing on April 1, _____ (the “_____ Series A Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on April 1, _____, and on April 1 in each year thereafter to and including April 1, _____, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the _____ Series A Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the _____ Series A Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Redemption Date (April 1)	Principal Amount
_____	_____

† Maturity.

Series B Bonds. The Series B Bonds maturing on April 1, _____ (the “_____ Series B Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on April 1, _____, and on April 1 in each year thereafter to and including April 1, _____, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the _____ Series B Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the _____ Series B Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Redemption Date (April 1)	Principal Amount
_____	_____

† Maturity.

The Series B Bonds maturing on April 1, _____ (the “_____ Series B Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the

following schedule on April 1, _____, and on April 1 in each year thereafter to and including April 1, _____, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the _____ Series B Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the _____ Series B Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Redemption Date (April 1)	Principal Amount
_____	_____

† Maturity.

Purchase of Bonds In Lieu of Optional and Mandatory Sinking Fund Redemption. In lieu of optional and mandatory sinking fund redemption of Bonds as provided above, amounts held by the Trustee for such redemption may also be used on any Interest Payment Date, upon receipt by the Trustee at least ninety (90) days prior to the next scheduled Interest Payment Date of the written request of an Authorized Representative of the City, for the purchase of Bonds at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the City may in its discretion direct, but not to exceed the redemption price which would be payable if such Bonds were redeemed. Such purchases may be affected through the investment department of the Trustee or of an affiliate of the Trustee. The aggregate principal amount of Bonds of the same maturity purchased in lieu of redemption shall not exceed the aggregate principal amount of Bonds of such maturity which would otherwise be subject to such redemption.

Selection of Bonds for Redemption. The Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption by lot within a maturity. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond. No Bonds selected for redemption may be transferred.

Notice of Redemption. Notice of redemption shall be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, and to the Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and Bond numbers of the Bonds to be redeemed, the maturity or maturities of the Bonds to be redeemed and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to

accrue and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

Notice of any optional redemption of Bonds shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Bonds to be redeemed is on deposit in the applicable fund or account.

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

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed pursuant to the provisions of the Indenture shall be canceled by the Trustee upon surrender thereof and destroyed.

SECURITY FOR THE BONDS

Revenues

The Series A Bonds are special obligations of the Authority payable from and secured by a pledge of the Revenues, consisting primarily of Water Installment Payments to be made by the City under the Water Installment Sale Agreement, Wastewater Installment Payments to be made by the City under the Wastewater Installment Sale Agreement, and any other amounts (including proceeds of the sale of the Series A Bonds) held in any fund or account established pursuant to the Indenture.

The Series B Bonds are special obligations of the Authority payable from and secured by a pledge of the Revenues, consisting primarily of Water Installment Payments to be made by the City under the Water Installment Sale Agreement and any other amounts (including proceeds of the sale of the Series B Bonds) held in any fund or account established pursuant to the Indenture.

The Water Installment Payments, allocable to the refunding of the 2012 Bonds and Wastewater Installment Payments, all of which are allocable to the refunding of the 2012 Bonds, payable to the Trustee are calculated to be sufficient to pay, when due, the principal of and interest on the Series A Bonds. The Water Installment Payments, allocable to the Water Improvement Project, payable to the Trustee are calculated to be sufficient to pay, when due, the principal of and interest on the Series B Bonds.

Installment Payments

Obligation to Pay. The City agrees to pay to the Authority, its successors and assigns, but solely from the Water System Net Revenues, as the purchase price of the Water System, and from the Wastewater System Net Revenues, as the purchase price of the Wastewater System, an amount equal to the aggregate principal amount of the Series A Bonds, together with interest on the unpaid principal balance, payable in Water Installment Payments and Wastewater Installment Payments coming due and payable on each Installment Payment Date. The City agrees to pay to the Authority, its successors and assigns, but solely from the Water System Net Revenues, as the purchase price of the Water System and the Water Improvement Project, an amount equal to the aggregate principal amount of the Series B Bonds, together with interest on the unpaid principal balance, payable in Water Installment Payments coming due and payable on each Installment Payment Date. The Water Installment Payments and Wastewater Installment Payments will be paid by the City to the Trustee, as assignee of the Authority pursuant to the Indenture.

The City's obligations under the Water Installment Sale Agreement are secured by a pledge of and lien on Water System Net Revenues. The City's obligations under the Wastewater Installment Sale Agreement are secured by a pledge of and lien on Wastewater System Net Revenues.

Effect of Prepayment. In the event that the City prepays all remaining Water Installment Payments in full, the City's obligations under the Water Installment Sale Agreement will thereupon cease and terminate, including but not limited to the City's obligation to pay Water Installment Payments; *provided, however,* that the City's obligations to compensate and indemnify the Trustee shall survive such prepayment. In the event that the City prepays the Water Installment Payments in part but not in whole, the principal component of each succeeding Water Installment Payment will be reduced and the interest component of each remaining Water Installment Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the Bonds thereby redeemed. In the event that the City prepays all remaining Wastewater Installment Payments in full, the City's obligations under the Wastewater Installment Sale Agreement will thereupon cease and terminate, including but not limited to the City's obligation to pay Wastewater Installment Payments; *provided, however,* that the City's obligations to compensate and indemnify the Trustee shall survive such prepayment. In the event that the City prepays the Wastewater Installment Payments in part but not in whole, the principal component of each succeeding Wastewater Installment Payment will be reduced and the interest component of each remaining Wastewater Installment Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the Series A Bonds thereby redeemed.

Rate on Overdue Payments. In the event the City fails to make any of the payments required in the Water Installment Sale Agreement and/or the Wastewater Installment Sale Agreement, the payment in default will continue as an obligation of the City until the amount in default is fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment, at the rate of ten percent (10%) per annum.

Assignment. The City agrees that all Water Installment Payments and Wastewater Installment Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the City assents to such assignment.

Special Obligations of the City; Obligations Absolute

Water Installment Payments. The City's obligation to pay the Water Installment Payments, the Water System Additional Payments, any other amounts coming due and payable under the Water Installment Sale Agreement and payments with respect to Water System Parity Obligations is a special obligation of the City limited solely to the Water System Net Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than Water System Net Revenues and other sources specifically identified in the Water Installment Sale Agreement for the payment of the Water Installment Payments, the Water Additional Payments or payments with respect to Water System Parity Obligations, nor will any other funds or property of the City be liable for the payment of the Water Installment Payments, the Water Additional Payments or payments with respect to Water System Parity Obligations and any other amounts coming due and payable under the Water Installment Sale Agreement.

The obligations of the City to make the Water Installment Payments, the Water Additional Payments and payments with respect to Water System Parity Obligations from Water System Net Revenues and to perform and observe the other agreements contained in the Water Installment Sale Agreement and under agreements with respect to Water System Parity Obligations are absolute and unconditional and are not subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Water System, whether under the Water Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee. Until such time as all of the Water Installment Payments, all of the Water Additional Payments and all other amounts coming due and payable under the Water Installment Sale Agreement and payments with respect to Water System Parity Obligations shall have been fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Water Installment Payments, Water Additional Payments, payments with respect to Water System Parity Obligations or such other amounts, (b) will perform and observe all other agreements contained in the Water Installment Sale Agreement and under any agreements with respect to Water System Parity Obligations, and (c) will not terminate the Water Installment Sale Agreement or agreements with respect to Water System Parity Obligations for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water System, failure to complete the Water Improvement Project by the estimated Completion Dates thereof, sale of the Water System, the taking by eminent domain of title to or temporary use of any component of the Water System, commercial frustration of purpose, any change in the tax law or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, the Water Installment Sale Agreement or agreements with respect to Water System Parity Obligations.

Nothing contained in the Water Installment Sale Agreement shall be construed to release the Authority or the Trustee from the performance of any of the agreements on its part contained in the Water Installment Sale Agreement or in the Indenture, and in the event the Authority or the Trustee shall fail to perform any such agreements, the City may institute such action against the Authority or the Trustee as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's rights under, the Water Installment Sale Agreement and in such event

the Authority hereby agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City shall so request.

Wastewater Installment Payments. The City's obligation to pay the Wastewater Installment Payments, the Wastewater System Additional Payments, any other amounts coming due and payable under the Wastewater Installment Sale Agreement and payments with respect to Wastewater System Parity Obligations is a special obligation of the City limited solely to the Wastewater System Net Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than Wastewater System Net Revenues and other sources specifically identified in the Wastewater Installment Sale Agreement for the payment of the Wastewater Installment Payments, the Wastewater Additional Payments or payments with respect to Wastewater System Parity Obligations, nor will any other funds or property of the City be liable for the payment of the Wastewater Installment Payments, the Wastewater Additional Payments or payments with respect to Wastewater System Parity Obligations and any other amounts coming due and payable under the Wastewater Installment Sale Agreement.

The obligations of the City to make the Wastewater Installment Payments, the Wastewater Additional Payments and payments with respect to Wastewater System Parity Obligations from Wastewater System Net Revenues and to perform and observe the other agreements contained in the Wastewater Installment Sale Agreement and under agreements with respect to Wastewater System Parity Obligations are absolute and unconditional and are not subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Wastewater System, whether under the Wastewater Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee. Until such time as all of the Wastewater Installment Payments, all of the Wastewater Additional Payments and all other amounts coming due and payable under the Wastewater Installment Sale Agreement and payments with respect to Wastewater System Parity Obligations shall have been fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Wastewater Installment Payments, Wastewater Additional Payments, payments with respect to Wastewater System Parity Obligations or such other amounts, (b) will perform and observe all other agreements contained in the Wastewater Installment Sale Agreement and under any agreements with respect to Wastewater System Parity Obligations, and (c) will not terminate the Wastewater Installment Sale Agreement or agreements with respect to Wastewater System Parity Obligations for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Wastewater System, sale of the Wastewater System, the taking by eminent domain of title to or temporary use of any component of the Wastewater System, commercial frustration of purpose, any change in the tax law or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, the Wastewater Installment Sale Agreement or agreements with respect to Wastewater System Parity Obligations.

Nothing contained in the Wastewater Installment Sale Agreement shall be construed to release the Authority or the Trustee from the performance of any of the agreements on its part contained in the Wastewater Installment Sale Agreement or in the Indenture, and in the event the Authority or the Trustee shall fail to perform any such agreements, the City may institute such action against the Authority or the Trustee as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name or in the name of the Authority prosecute or defend any action

or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's rights under, the Wastewater Installment Sale Agreement and in such event the Authority hereby agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City shall so request.

Pledge and Application of Net Revenues

Pledge of Water System Net Revenues. The City agrees that the payment of the Water Installment Payments will be secured by a pledge, charge and first and prior lien upon Water System Net Revenues, and Water System Net Revenues sufficient to pay the Water Installment Payments as they become due and payable are charged, assigned, transferred and set over by the City to the Authority and its assigns for the purpose of securing payment of the Water Installment Payments. The Water System Net Revenues shall constitute a trust fund for the security and payment of the Water Installment Payments.

Deposit to and Transfer from Water Fund. All of the Water System Gross Revenues shall be deposited by the City immediately upon receipt in the Water Fund.

The City shall withdraw from the Water Fund such amounts at such times as shall be required to pay all Water Maintenance and Operation Costs as they come due and payable.

The City covenants and agrees that all Water System Gross Revenues will be held by the City in the Water Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority hereunder), the Owners, the owners of any Water System Parity Obligations and the owners of any Water System Subordinate Obligations.

On or before each Installment Payment Date, the City shall withdraw from the Water Fund and transfer to the Trustee, for deposit into the Bond Fund, amounts which, together with the balance then on deposit in the Bond Fund (other than amounts resulting from the prepayment of the Water Installment Payments and other than amounts required for payment of the principal or interest with respect to any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of the Water Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the City shall withdraw from the Water Fund such amounts at such times as shall be required to pay (i) the principal of and interest on any Water System Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Water System Parity Obligations; and (ii) pay all other amounts when and as due and payable hereunder.

Release from Lien. Following the transfers with respect to the April 1 Interest Payment Date, Water System Net Revenues in excess of amounts required for the payment of Water Installment Payments and any Water System Parity Obligations in that Fiscal Year shall be released from the lien of the Water Installment Sale Agreement and shall be available for any lawful purpose of the City.

Pledge of Wastewater System Net Revenues. The City agrees that the payment of the Wastewater Installment Payments will be secured by a pledge, charge and first and prior lien upon Wastewater System Net Revenues, and Wastewater System Net Revenues sufficient to pay the Wastewater Installment Payments as they become due and payable are charged, assigned, transferred and set over by the City to the Authority and its assigns for the purpose of securing payment of the Wastewater Installment Payments. The

Wastewater System Net Revenues shall constitute a trust fund for the security and payment of the Wastewater Installment Payments.

Deposit to and Transfer from Wastewater Fund. All of the Wastewater System Gross Revenues shall be deposited by the City immediately upon receipt in the Wastewater Fund.

The City shall withdraw from the Wastewater Fund such amounts at such times as shall be required to pay all Wastewater Maintenance and Operation Costs as they come due and payable.

The City covenants and agrees that all Wastewater System Gross Revenues will be held by the City in the Wastewater Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority hereunder), the Owners, the owners of any Wastewater System Parity Obligations and the owners of any Wastewater System Subordinate Obligations.

On or before each Installment Payment Date, the City shall withdraw from the Wastewater Fund and transfer to the Trustee, for deposit into the Bond Fund, amounts which, together with the balance then on deposit in the Bond Fund (other than amounts resulting from the prepayment of the Wastewater Installment Payments and other than amounts required for payment of the principal or interest with respect to any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of the Wastewater Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the City shall withdraw from the Wastewater Fund such amounts at such times as shall be required to pay (i) the principal of and interest on any Wastewater System Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Wastewater System Parity Obligations; and (ii) pay all other amounts when and as due and payable hereunder.

Release from Lien. Following the transfers with respect to the April 1 Interest Payment Date, Wastewater System Net Revenues in excess of amounts required for the payment of Wastewater Installment Payments and any Wastewater System Parity Obligations in that Fiscal Year shall be released from the lien of the Wastewater Installment Sale Agreement and shall be available for any lawful purpose of the City.

Rates, Fees and Charges

Water System. The City will, at all times while any of the Water Installment Payments, any Water System Parity Obligations and any Water Subordinate Obligations remain outstanding, fix, prescribe and collect rates, fees and charges for the Water Service for each Fiscal Year so as to yield Water System Gross Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year in the order below set forth:

- (i) All current Water Maintenance and Operation Costs.
- (ii) The Water Installment Payments and all payments required with respect to the any Water System Parity Obligations.
- (iii) Payments required with respect to the any Water Subordinate Obligations.

(iv) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the Water System Net Revenues.

(v) Any other lawful purposes of the City, including, but not limited to, deposits to the Water Rate Stabilization Fund.

In addition, the City shall fix, prescribe and collect rates, fees and charges for the water service during each Fiscal Year which are sufficient to yield Water System Net Revenues at least equal to one hundred twenty-five percent (125%) of the amounts payable under the preceding paragraphs (ii) and (iii) above in such Fiscal Year.

Wastewater System. The City will, at all times while any of the Wastewater Installment Payments, any Wastewater System Parity Obligations and any Wastewater Subordinate Obligations remain outstanding, fix, prescribe and collect rates, fees and charges for the Wastewater Service for each Fiscal Year so as to yield Wastewater System Gross Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year in the order below set forth:

(i) All current Wastewater Maintenance and Operation Costs.

(ii) The Wastewater Installment Payments and all payments required with respect to the any Wastewater System Parity Obligations.

(iii) Payments required with respect to the any Wastewater Subordinate Obligations.

(iv) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the Wastewater System Net Revenues.

(v) Any other lawful purposes of the City, including, but not limited to, deposits to the Wastewater Rate Stabilization Fund.

In addition, the City shall fix, prescribe and collect rates, fees and charges for the water service during each Fiscal Year which are sufficient to yield Wastewater System Net Revenues at least equal to one hundred twenty-five percent (125%) of the amounts payable under the preceding paragraphs (ii) and (iii) above in such Fiscal Year.

Limitations on Future Obligations Secured by Water System Net Revenues

No Obligations Superior to Water Installment Payments. In order to protect further the availability of the Water System Net Revenues and the security for the Water Installment Payments and any Water System Parity Obligations, the City hereby agrees that the City shall not, so long as any Water Installment Payments or any Water System Parity Obligations are outstanding, issue or incur any obligations payable from Water System Gross Revenues or Water System Net Revenues superior to the Water Installment Payments or any Water System Parity Obligations.

Water System Parity Obligations. The City further covenants that it will not issue or incur any Water System Parity Obligations unless:

(i) The City is not in default under the terms of this Water Installment Sale Agreement or any agreements relating to then existing Water System Parity Obligations;

(ii) (A) Water System Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Water System Parity Obligations are authorized to be issued or incurred, as shown by the books of the City, shall have amounted to at least 1.25 times the maximum amount of Water Installment Payments and debt service on all Water System Parity Obligations outstanding immediately subsequent to the incurring of such additional obligations coming due and payable in any future Fiscal Year.

Either or both of the following items may be added to such Water System Net Revenues for the purpose of applying the restriction contained in this subsection (b)(ii)(A):

(1) An allowance for revenues to be derived from any additions to or improvements or extensions of the Water System which, during all or any part of such Fiscal Year or the twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Water System Parity Obligations are authorized to be issued or incurred, were not in service, in an amount equal to 100% of the estimated additional average annual Water System Net Revenues to be derived from such additions, improvements and extensions, all as shown by the certificate or opinion of a qualified independent consultant employed by the City.

(2) An allowance for any increase in the charges made for service from the Water System which has become effective prior to the incurring of such Water System Parity Obligations but which, during all or any part of such Fiscal Year or the twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Water System Parity Obligations are authorized to be issued or incurred, was not in effect, in an amount equal to 100% of the amount by which the Water System Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or the twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Water System Parity Obligations are authorized to be issued or incurred, as shown by the certificate or opinion of a qualified independent consultant employed by the City;

or

(B) Estimated Water System Net Revenues, based on a report of a qualified independent engineer employed by the City or a report of a qualified independent consultant employed by the City, for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Water System Parity Obligations proposed to be executed is to be capitalized or, if no interest is capitalized the

Fiscal Year in which the proposed Water System Parity Obligations are to be issued, or (ii) the date on which substantially all projects financed with the proposed Water System Parity Obligations are expected to commence operations, shall have amounted to at least 1.25 times the maximum amount of Water Installment Payments and debt service on all Water System Parity Obligations outstanding immediately subsequent to the incurring of such additional obligations coming due and payable in any future Fiscal Year.

Any or all of the following items may be added to such Water System Net Revenues for the purpose of applying the restriction contained in this subsection (b)(ii)(B):

(1) An allowance for revenues that are estimated to be derived from any increase in the rates, fees and charges in effect and being charged or from any increase in the rates, fees and charges that have been approved but are not yet in place; and

(2) An allowance for revenues that are estimated to be derived from customers of the Water System anticipated to be served by the additions, betterments or improvements to the Water System to be financed by the proposed Parity Obligation during such five year period; and

(3) An allowance for a reduction in expenses that are estimated to be realized by the City pursuant to a contractual guarantee from the provider of energy efficiency improvements during such five year period.

(iii) A reserve fund may, but shall not be required to be, funded for such Water System Parity Obligations.

(iv) Interest with respect to such Water System Parity Obligations shall be paid on the Installment Payment Dates.

(v) Principal with respect to such Water System Parity Obligations shall be paid on March 15.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the City to issue or incur Water System Parity Obligations at any time to refund the Water Installment Payments or Water System Parity Obligations for debt service savings.

Water Subordinate Obligations. There shall be no limitations on the ability of the City to issue or incur Water System Subordinate Obligations so long as the City is not in default under the terms of this Water Installment Sale Agreement, any agreements relating to then existing Water System Parity Obligations or any agreement relating to then existing Water System Subordinate Obligations.

Calculating Debt Service on Variable Rate Debt. For all purposes, variable rate indebtedness shall be assumed to bear interest at the highest of: (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding); (ii) if the indebtedness has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation; or (iii) (A) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published *Bond Buyer* "Revenue Bond Index" (or

comparable index if no longer published), or (B) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; *provided, however*, that for purposes of any rate covenant measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period.

Calculating Debt Service on Swaps. If any interest rate swap agreement under which the City is obligated to make payments based on a fixed interest rate is in place with respect to variable rate Water System Parity Obligations, the amount payable by the City with respect to such variable rate Water System Parity Obligations shall be assumed to be the fixed rate payable under such interest rate swap agreement.

Water Additional Payments

In addition to the Water Installment Payments, the City shall pay, from Water System Net Revenues, when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture and the Water Installment Sale Agreement, including, without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation due to the Trustee for its fees, costs and expenses incurred under the Indenture, compensation due to the Authority for its fees, costs and expenses incurred under the Indenture and all costs and expenses of attorneys, auditors, engineers and accountants.

Water Rate Stabilization Fund

From time to time, the City may deposit in the Water Rate Stabilization Fund from Water System Gross Revenues such amounts as the City may determine, provided that deposits for each Fiscal Year may be made until (but not after) one hundred eighty (180) days following the end of such Fiscal Year. There are no current moneys in the Water Rate Stabilization Fund.

The City may withdraw amounts from the Water Rate Stabilization Fund (i) for transfer to the Water Fund for inclusion in Water System Gross Revenues for any Fiscal Year, such withdrawals to be made until (but not after) one hundred eighty (180) days after the end of such Fiscal Year, or (ii) for any other lawful purpose of the City.

All interest or other earnings on deposits in the Water Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Water System Gross Revenues.

Notwithstanding the foregoing, (i) no deposit of Water System Gross Revenues to the Water Rate Stabilization Fund may be made to the extent that such Water System Gross Revenues were included in the calculations of parity test and withdrawal of the Water System Gross Revenues to be deposited in the Water Rate Stabilization Fund from Water System Gross Revenues that would cause noncompliance with the rate covenant and (ii) no deposit of Water System Net Revenues shall be made in the Water Rate Stabilization Fund to the extent that such deposit would cause noncompliance with the rate covenant in any Fiscal Year.

The Water Rate Stabilization Fund is not subordinate to secure the payments with respect to the Water Installment Payments, the payments with respect to any Water System Parity Obligations or the payments with respect to any Water Subordinate Obligations.

Limitations on Future Obligations Secured by Wastewater System Net Revenues

No Obligations Superior to Wastewater Installment Payments. In order to protect further the availability of the Wastewater System Net Revenues and the security for the Wastewater Installment Payments and any Wastewater System Parity Obligations, the City hereby agrees that the City shall not, so long as any Wastewater Installment Payments or any Wastewater System Parity Obligations are outstanding, issue or incur any obligations payable from Wastewater System Gross Revenues or Wastewater System Net Revenues superior to the Wastewater Installment Payments or any Wastewater System Parity Obligations.

Wastewater System Parity Obligations. The City further covenants that it will not issue or incur any Wastewater System Parity Obligations unless:

(i) The City is not in default under the terms of this Wastewater Installment Sale Agreement or any agreements relating to then existing Wastewater System Parity Obligations;

(ii) (A) Wastewater System Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Wastewater System Parity Obligations are authorized to be issued or incurred, as shown by the books of the City, shall have amounted to at least 1.25 times the maximum amount of Wastewater Installment Payments and debt service on all Wastewater System Parity Obligations outstanding immediately subsequent to the incurring of such additional obligations coming due and payable in any future Fiscal Year.

Either or both of the following items may be added to such Wastewater System Net Revenues for the purpose of applying the restriction contained in this subsection (b)(ii)(A):

(1) An allowance for revenues to be derived from any additions to or improvements or extensions of the Wastewater System which, during all or any part of such Fiscal Year or the twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Wastewater System Parity Obligations are authorized to be issued or incurred, were not in service, in an amount equal to 100% of the estimated additional average annual Wastewater System Net Revenues to be derived from such additions, improvements and extensions, all as shown by the certificate or opinion of a qualified independent consultant employed by the City.

(2) An allowance for any increase in the charges made for service from the Wastewater System which has become effective prior to the incurring of such Wastewater System Parity Obligations but which, during all or any part of such Fiscal Year or the twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Wastewater System Parity Obligations are authorized to be issued or incurred, was not in effect, in an amount equal to 100% of the amount by which the Wastewater System Net Revenues would have been

increased if such increase in charges had been in effect during the whole of such Fiscal Year or the twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Wastewater System Parity Obligations are authorized to be issued or incurred, as shown by the certificate or opinion of a qualified independent consultant employed by the City;

or

(B) Estimated Wastewater System Net Revenues, based on a report of a qualified independent engineer employed by the City or a report of a qualified independent consultant employed by the City, for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Wastewater System Parity Obligations proposed to be executed is to be capitalized or, if no interest is capitalized the Fiscal Year in which the proposed Wastewater System Parity Obligations are to be issued, or (ii) the date on which substantially all projects financed with the proposed Wastewater System Parity Obligations are expected to commence operations, shall have amounted to at least 1.25 times the maximum amount of Wastewater Installment Payments and debt service on all Wastewater System Parity Obligations outstanding immediately subsequent to the incurring of such additional obligations coming due and payable in any future Fiscal Year.

Any or all of the following items may be added to such Wastewater System Net Revenues for the purpose of applying the restriction contained in this subsection (b)(ii)(B):

(1) An allowance for revenues that are estimated to be derived from any increase in the rates, fees and charges in effect and being charged or from any increase in the rates, fees and charges that have been approved but are not yet in place; and

(2) An allowance for revenues that are estimated to be derived from customers of the Wastewater System anticipated to be served by the additions, betterments or improvements to the Wastewater System to be financed by the proposed Parity Obligation during such five year period; and

(3) An allowance for a reduction in expenses that are estimated to be realized by the City pursuant to a contractual guarantee from the provider of energy efficiency improvements during such five year period.

(iii) A reserve fund may, but shall not be required to be, funded for such Wastewater System Parity Obligations.

(iv) Interest with respect to such Wastewater System Parity Obligations shall be paid on the Installment Payment Dates.

(v) Principal with respect to such Wastewater System Parity Obligations shall be paid on March 15.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the City to issue or incur Wastewater System Parity Obligations at any time to refund the Wastewater Installment Payments or Wastewater System Parity Obligations for debt service savings.

Subordinate Debt. There shall be no limitations on the ability of the City to issue or incur Wastewater System Subordinate Obligations so long as the City is not in default under the terms of this Wastewater Installment Sale Agreement, any agreements relating to then existing Wastewater System Parity Obligations or any agreement relating to then existing Wastewater System Subordinate Obligations .

Calculating Debt Service on Variable Rate Debt. For all purposes, variable rate indebtedness shall be assumed to bear interest at the highest of: (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding); (ii) if the indebtedness has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation; or (iii) (A) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published *Bond Buyer* “Revenue Bond Index” (or comparable index if no longer published), or (B) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; *provided, however*, that for purposes of any rate covenant measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period.

Calculating Debt Service on Swaps. If any interest rate swap agreement under which the City is obligated to make payments based on a fixed interest rate is in place with respect to variable rate Wastewater System Parity Obligations, the amount payable by the City with respect to such variable rate Wastewater System Parity Obligations shall be assumed to be the fixed rate payable under such interest rate swap agreement.

Wastewater Additional Payments

In addition to the Wastewater Installment Payments, the City shall pay, from Wastewater System Net Revenues, when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture and the Wastewater Installment Sale Agreement, including, without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation due to the Trustee for its fees, costs and expenses incurred under the Indenture, compensation due to the Authority for its fees, costs and expenses incurred under the Indenture and all costs and expenses of attorneys, auditors, engineers and accountants (the “Water System Additional Payments”).

Wastewater Rate Stabilization Fund

From time to time, the City may deposit in the Wastewater Rate Stabilization Fund from Wastewater System Gross Revenues such amounts as the City may determine, provided that deposits for each Fiscal Year may be made until (but not after) one hundred eighty (180) days following the end of such Fiscal Year. There are no current moneys in the Wastewater Rate Stabilization Fund.

The City may withdraw amounts from the Wastewater Rate Stabilization Fund (i) for transfer to the Wastewater Fund for inclusion in Wastewater System Gross Revenues for any Fiscal Year, such withdrawals to be made until (but not after) one hundred eighty (180) days after the end of such Fiscal Year, or (ii) for any other lawful purpose of the City.

All interest or other earnings on deposits in the Wastewater Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Wastewater System Gross Revenues.

Notwithstanding the foregoing, (i) no deposit of Wastewater System Gross Revenues to the Wastewater Rate Stabilization Fund may be made to the extent that such Wastewater System Gross Revenues were included in the calculations of parity test and withdrawal of the Wastewater System Gross Revenues to be deposited in the Wastewater Rate Stabilization Fund from Wastewater System Gross Revenues that would cause noncompliance with the rate covenant and (ii) no deposit of Wastewater System Net Revenues shall be made in the Wastewater Rate Stabilization Fund to the extent that such deposit would cause noncompliance with the rate covenant in any Fiscal Year.

The Wastewater Rate Stabilization Fund is not pledged to secure the payments with respect to the Wastewater Installment Payments, the payments with respect to any Wastewater System Parity Obligations or the payments with respect to any Wastewater Subordinate Obligations.

Reserve Account

The Reserve Account is established by the Indenture and is required to be funded in an amount equal to the least of (a) Maximum Annual Debt Service on all Outstanding Bonds, (b) 125% of average annual debt service on all Outstanding Bonds, and (c) 10% of the principal amount of all Outstanding Bonds (the "Reserve Requirement"). The Reserve Requirement as of the date of delivery of the Bonds is \$_____. Amounts in the Reserve Account are to be used only for the payment of the principal of and interest on Bonds to the extent amounts in the Principal Account and/or the Interest Account are insufficient therefor. The Municipal Bond Insurer will issue the Reserve Policy, effective as of the date of delivery of the Bonds, in an amount equal to the Reserve Requirement.

On the date of delivery of the Bonds, in lieu of a cash deposit to the Reserve Account, the Municipal Bond Insurer will issue the Reserve Policy, in an amount equal to the initial "Reserve Requirement." There is no obligation for the Authority to replace the Reserve Policy or to cash fund the Reserve Account if the rating of the Municipal Bond Insurer is downgraded or withdrawn.

If the City is required to replenish cash in the Reserve Fund, it shall be paid by the City from Water System Net Revenues and from Wastewater System Net Revenues in proportion to their respective obligations with respect to the Bonds.

Flow of Funds

No later than the first Business Day preceding each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

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

(b) The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date.

(c) The Trustee will deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any.

(d) The Trustee will deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

MUNICIPAL BOND INSURANCE

[TO COME]

THE AUTHORITY

The Authority is a joint exercise of powers entity duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated February 17, 1991, by and among the City, the Agency, and the School District. The Authority is authorized pursuant to Article 4 (commencing with section 6584) of the California Government Code to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities, including the City, the Agency, and the District, and to provide financing for public capital improvements for lease to public entities, including the City, the Agency, and the School District. The members of the City Council of the City also sit as the Board of Directors of the Authority. The Authority is administered by the City staff.

THE CITY

The City, a general law city incorporated on April 3, 1906, is located the southwestern tip of the County in the western San Joaquin Valley in central California. The City is located 52 miles (84 km) southwest of Fresno, 10 miles west of I-5 and sits at an elevation of 673 feet (205 m). The City occupies a land area of 6.61 square miles and serves a population of approximately 17,200. The City is surrounded by hills and ranches. Monterey County lies to the west of the City and Kings County sits to the east.

Beginning with the November 2020 election, members of the City Council will be elected by district instead of from the City at large. One council member will represent each of the five districts within the City.

The City Council members are elected for overlapping four-year terms. The policies of the City Council are carried out by the appointed City Manager. The City Council also directly hires the City

Attorney who serves as the City’s primary legal advisor. Key administrative personnel of the City are listed at the front of this Official Statement. The current members of the City Council are as follows:

COALINGA CITY COUNCIL MEMBERS

Name and Office	Current Term Expires
Ron Ramsey, <i>Mayor</i>	December 2022
James Horn, <i>Mayor Pro-Tem</i>	December 2024
Adam Adkisson, <i>Councilmember</i>	December 2022
Jose Manny Ramirez, <i>Councilmember</i>	December 2024
Ray Singleton, <i>Councilmember</i>	December 2022

See APPENDIX A— GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY for additional description of the City as well as certain economic and demographic information relating to the surrounding area.

THE WATER SYSTEM

General

The City owns the Water System, the sole purveyor of potable water within City limits. The City has operated the Water System since its incorporation in 1906. The City’s Public Works Department operates and maintains the Water System, which consists of treatment, storage, and distribution and transmission facilities.

The City purchases all of its raw water supplies from California’s Central Valley Project through a contract with the United States Department of Interior’s Bureau of Reclamation (the “USBR”). Raw water from the Central Valley Project is sent to the Water System’s treatment plant which has a nominal capacity of 12 million gallons per day (“MGD”) average flow and hydraulic (maximum flow) capacity of 16 MGD. The Water System’s distribution system distributes potable water from the treatment plant to a network of water mains ranging in size from 4 inches to 16 inches. For additional information about the City’s water supply, see “Water Supply.” For additional information about the Water System’s facilities, see “Water System Facilities.”

All Water System customer accounts are metered. The Water System currently has approximately 3,800 metered connections, of which approximately 3,400 are residential meters and 400 are non-residential connections. For additional information about the Water System’s users, see “Water Use.”

Water System Management

The Water System is operated by the City’s Utilities Department and is managed by the Utilities Supervisor. The Utilities Supervisor supervises seven staff members. Generally, staff members perform administrative, engineering, construction and maintenance, water treatment, water quality, preventive maintenance, and customer service activities.

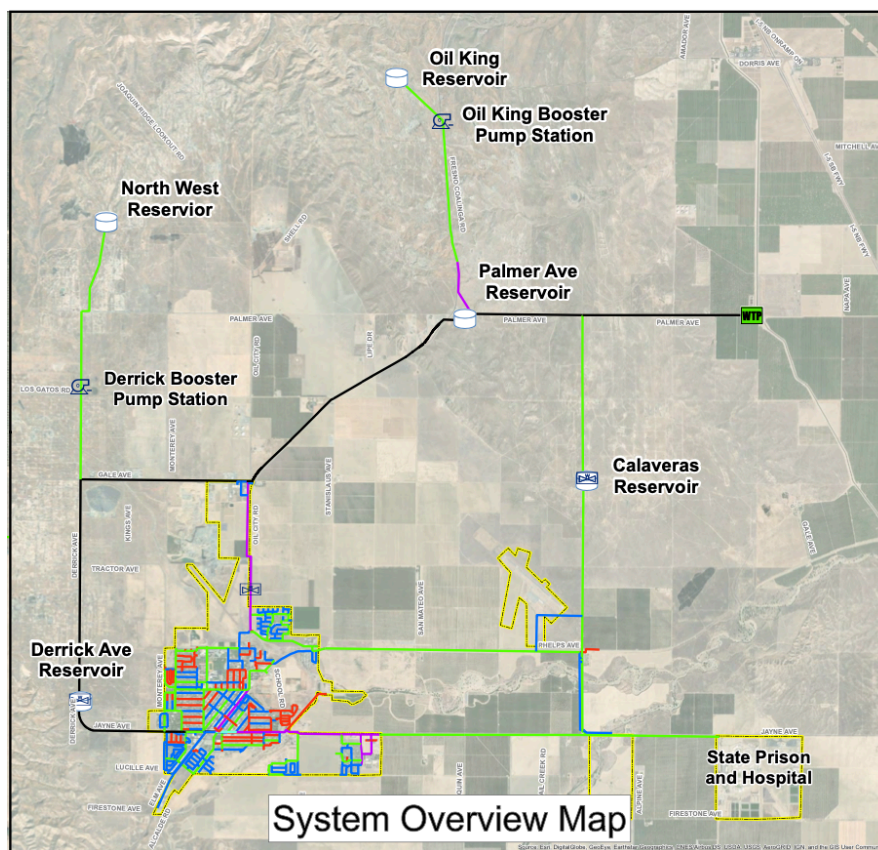
Jared Salona, the Chief Plant Operator, manages the operation of the Water Treatment Plant. Mr. Salona has over five years of operating experience and has been with the City for six years. Mr. Salona holds Water Treatment T-4 and Water Distribution D-2 certificates.

Water System Employee Relations

Service Employees International Union Local 521 represents the Water System's non-management as a collective bargaining unit. The current contract expires on June 30, 2022. The Water System has not experienced a labor stoppage or an interruption in service since its inception.

Water System Facilities

MAP OF WATER SYSTEM FACILITIES



Water Treatment Plant. The City's water treatment plant originally came online in April 1972 with an average daily flow capacity of 8 MGD and maximum daily flow capacity of 12 MGD. The water treatment plant provides surface water treatment for the City's raw water purchases from the Central Valley Project with processes that include chemical pretreatment (oxidation), flocculation, sedimentation, filtration, disinfection, and corrosion control. As a secondary disinfection, chloramination is used to maintain chlorine residual in the distribution system while reducing further production of disinfection byproducts. In ____, in anticipation of the increased demands resulting from the construction of the Pleasant Valley State Prison, the capacity of the water treatment plant was increased to receive an average daily flow of 12 MGD and a maximum daily flow of 16 MGD.

Treated water is pumped from the treatment plant by a filtered-water pump station (as described below) into a 27-inch diameter pipeline in Palmer Avenue.

Pump Stations. The filtered water pump station includes two 450 horsepower (“HP”), 2,300 gallons per minute (“gpm”) and 2,400 gpm and three 700 HP, 3,600 gpm vertical turbine pumps. When in optimal condition, the pump station has the operational ability to pump the treatment plant capacity of 16.4 MGD (11,400 gpm) with one of the 450 HP pumps out of service. A booster pump station lifts treated water in a series of 24, 27 and 30-inch transmission mains leading to City. Treated water is pumped from the treatment plant and filtered water pump station into five storage reservoirs with an estimated combined storage capacity of 16 million gallons (“MG”).

The City’s water system also includes two booster pumping stations. The booster pumping stations do not function as a part of the Water System’s main service area but instead serve the oil company customers exclusively. The Oil King booster pumping station consists of two 200-HP, 1,440 gpm booster pumps that elevate Palmer Avenue Reservoir water to the Oil King Reservoir. The Derrick Avenue booster station consists of two 75-HP, 556 gpm booster pumps to elevate water to the Northwest Reservoir.

Storage Reservoirs. The City’s existing storage reservoirs all consist of steel tanks resting on reinforced concrete ring wall foundations. The City’s five reservoirs have an estimated combined storage of 16 MG and supply the City, many of the surrounding commercial facilities, Oil fields, Pleasant Valley State Prison and the Coalinga State Hospital. The following is a description of each of the City’s treated water storage reservoirs:

New Palmer Avenue Reservoir – This reservoir is located on the south side of Palmer Avenue and has a capacity of 2.8 MG. This reservoir receives pumped treated water from the water treatment plant and filtered water pump station. The New Palmer Reservoir was completed in 2014, constructed directly south of the old Palmer Reservoir. The old reservoir is not presently in use.

Calaveras Avenue Reservoir – This reservoir is located on the east side of Calaveras Avenue and has a capacity of 5.0 MG. Water flows from the water treatment plant to the Calaveras Reservoir and then to the Pleasant Valley State Prison.

Derrick Avenue Reservoir – This reservoir is located west of the City, on the east side of Derrick Avenue. This reservoir has a capacity of 7.6 MG. Water from the Palmer Reservoir flows to the Derrick Reservoir and then into the City.

Oil King Reservoir – This reservoir is located west of Highway 33/198, approximately three miles north of Palmer Avenue. The reservoir has a capacity of 0.5 MG and exclusively serves the City’s oil company customers.

Northwest Reservoir – This reservoir is located east of Derrick Avenue, approximately three miles north of Gale Avenue. This reservoir has a capacity of 0.2 MG. Like the Oil King Reservoir, this reservoir is also used exclusively for the City’s oil company customers.

Since the Oil King and Northwest reservoirs’ sole function is to provide water to oil companies, they are excluded from the evaluation of the City’s available storage. The existing combined storage capacity of the Palmer, Derrick and Calaveras reservoirs is 15.4 MG.

Distribution System. Potable water from the City's water treatment plant is pumped by a filtered-water pump station into a 27-inch diameter pipeline on Palmer Avenue. Approximately two miles west of the water treatment plant, the flow tees at Calaveras Avenue. Water flowing west continues for another mile and a half to the Palmer Avenue Reservoir. Water going to the Pleasant Valley State Prison travels south in the 12-inch Calaveras Avenue pipeline to the Calaveras Avenue Reservoir. After flowing through the Calaveras Reservoir, it continues south along Calaveras Avenue another 3.5 miles to Jayne Avenue and then east to the prison. Water can potentially travel from the Calaveras Reservoir westerly into the City; however, this seldom occurs due to the hydraulic conditions.

Water leaving the Palmer Reservoir flows through approximately eight miles of 24 and 27-inch transmission mains to the Derrick Avenue Reservoir. Water travels primarily from the Derrick Avenue Reservoir through 18, 24, and 30-inch transmission mains into the City's water distribution system. The distribution system consists of a network of water mains ranging in size from 4 to 14 inches in diameter. The system can supply peak hour needs without excessive losses and can deliver fire flows to main lines.

Water System Service Area

The Water System's service area comprises the City boundaries, as well as a portion of the unincorporated area of the County located outside the City's borders but within the City's urban development boundaries. All of the residents and businesses residing within the Water System's service area receive potable water from the Water System.

Topography of the Water System's service area consists of flat to gently rolling hills, with perennial streambeds bisecting the area, which originate on the eastern side of the inner Coast Range and drain from west to east. Elevations in the area range from 660 to 680 feet above sea level. The average annual precipitation in the City is approximately 7.61 inches.

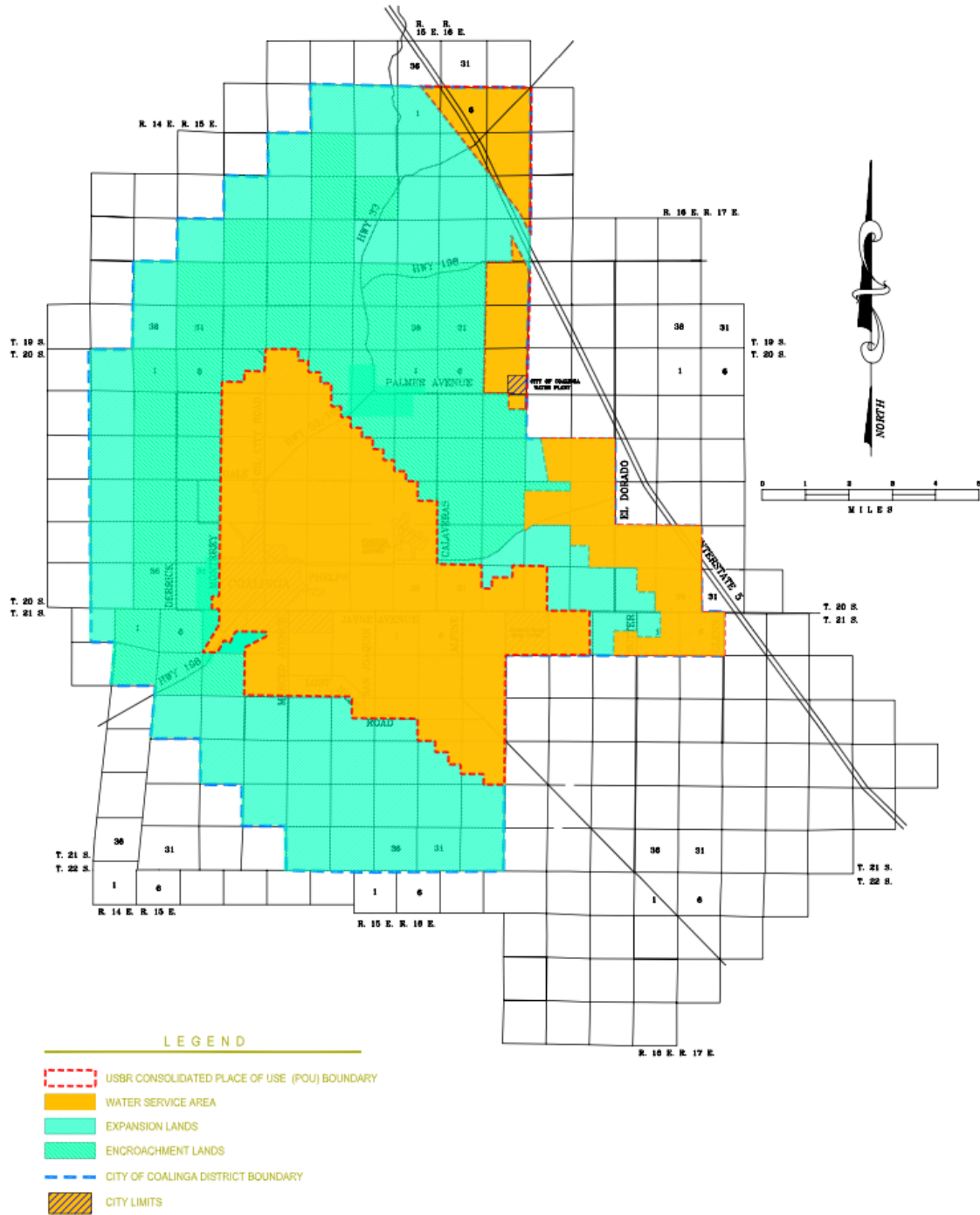
Future Growth in the Service Area. The City estimates that future growth within the Water System's service area will follow the most recent 15-year average and a growth rate of 2.86 percent is used to estimate future customer demand. The City has experienced steady population growth since 2010 and future projections anticipate further growth within the City. This steady increase in population is primarily a reflection of the regional growth pressures that are affecting the Central Valley region as people living in more expensive regions look for affordable housing in the Central Valley region.

Significant future projects and developments planned or currently under construction within the Water System's service area include:

- 32 units of senior apartments,
- a 14-lot single family subdivision (consisting of 1,400 to 1,600 ft² homes),
- an assisted care facility with approximately 60 beds and 84 individual living units,
- a 81 unit multi-family apartment complex, and
- a 76 unit multi-family apartment complex.

Service Area Map. A map of the Water System's water service area and the City's boundaries is provided below.

WATER SYSTEM SERVICE AREA MAP



CITY OF COALINGA
WATER SERVICE AREA AND
USBR CONSOLIDATED PLACE OF USE

Water Supply

Overview. The City's water supply is exclusively surface water, supplied from the USBR via the Central Valley Project. Raw water is conveyed from the Central Valley Project's California Aqueduct to the Coalinga Canal and subsequently to the City's water treatment plant.

The City currently does not use recycled water to meet any of their water demands. Currently, the City's Wastewater is not treated to tertiary effluent quality and there is no infrastructure in place to deliver recycled water for the irrigation of landscape areas such as school, parks, and along roadways.

Current and Historical Water Purchase Contracts with USBR. On October 28, 1968, the City entered into a 40-year contract with USBR for up to 10,000 acre-feet of Central Valley Project water on an annual basis. This contract expired on December 31, 2008 and has been succeeded by a series of interim renewal contracts pending completion of site-specific environmental analysis for the long-term contract renewal. The most recent was the sixth interim renewal contract (Contract No. 14-06- 200-4173A-IR6) was issued March 1, 2019 and remains in effect until January 31, 2021.

The "Water Infrastructure Improvement for the Nation Act of 2016" ("WIIN Act") directed USBR to convert water service contracts to repayment contracts upon a contractors request. The WIIN Act allowed the City to enter a new agreement with USBR (the "USBR Contract") into "perpetuity," meaning the new agreement has no termination date. On January 7, 2021 the City Council adopted Resolution No. 3999 that authorized the City's Mayor to execute the USBR Contract to secure the City's long-term water supply. The Mayor, on behalf of the City, signed the USBR Contract on _____, 2021, and the USBR Contract became effective as of February 1, 2021.

The USBR Contract stipulates that USBR will furnish the City with up to 10,000 acre-feet of raw water per year. The USBR Contract has no termination. Execution of the USBR Contract did not require environmental approval. Under the USBR Contract the rates for the City's water purchases are determined by the United States Secretary of the Interior's rate-setting policy as consistent with the WIIN Act as such policies are amended, modified, or superseded only through a public notice and comment procedure.

Additionally, the terms of the USBR Contract require that the City pay USBR the full remaining balance of "Allocated Contractor Construction Costs" associated with the previous USBR cost structure existing under the City's sixth interim renewal contract. The 2021-22 USBR rate structure includes a cost component of \$29.49 per acre-foot to pay off past construction costs. The USBR Contract has the same rates as the previous sixth interim renewal contract but does not include the construction cost component. The remaining construction cost balance of \$619,482.00 is payable within 60 days of the USBR Contract signing based on USBR's estimate of 2020 water-year rate payments from the City. A subsequent calculation will be done by USBR to determine the remaining refundable amounts, which USBR will credit to the City's future rate payments under the USBR Contract.

The raw water the Water System purchases from USBR under the USBR Contract flows from the Sacramento-San Joaquin Delta to the south into either the Delta-Mendota Canal or the California Aqueduct, which discharges in the O'Neil Forebay. From the O'Neil Forebay, water continues to flow south into the California Aqueduct to the point of origination of the Coalinga Canal, approximately 15 miles northeast of the City where Highway 145 crosses over the California Aqueduct. After leaving the California Aqueduct, water is carried in the Coalinga Canal approximately 9 miles south to the Water System's intake. A raw water pump station then lifts the water from the Coalinga Canal to the City's water treatment plant.

Central Valley Project. The Central Valley Project is a federal power and water management project in the state of California under the supervision of USBR. The Central Valley Project was devised in 1933 in order to provide irrigation and municipal water to much of California's Central Valley region through regulating and storing water in reservoirs in the northern half of California and transporting it to the water-poor San Joaquin Valley and its surroundings by means of a series of canals, aqueducts and pump plants, some shared with the California State Water Project ("SWP").

In addition to water storage and regulation, the Central Valley Project has a hydroelectric capacity of over 2,000 megawatts, and provides recreation and flood control with its twenty dams and reservoirs. The Central Valley Project has contributed to the growth of cities to grow along the flood-controlled rivers which previously would flood each spring and has transformed the semi-arid desert environment of the San Joaquin Valley into productive farmland. Freshwater stored in Sacramento River reservoirs and released downriver during dry periods prevents salt water from intruding into the Sacramento-San Joaquin Delta during high tide. A map of major Central Valley Project facilities is included on the following page.

**USBR
CENTRAL VALLEY PROJECT**



Supply Constraints. The City's water contract with USBR is the City's main source of water. This supply is subject to shortages due to climate and environmental regulations. In normal years, there are no specific rules on how much of the Central Valley Project water must be allocated, but, during dry periods allocations of water supplies are subject to rules in the USBR's Shortage Policy. In a severe water supply shortage (including a "Water Shortage Emergency" declared by the governor of the state of California), the USBR could reduce Central Valley Project water deliveries to the City to a public health and safety water supply level, providing Central Valley Project water is available. In such an event, the City will have to implement water conservation measures in order to satisfy human consumption, sanitation, and fire protection requirements.

No Groundwater Use. The City is located in the Pleasant Valley Subbasin in the Tulare Lake hydrologic region of the San Joaquin Groundwater Basin. The Pleasant Valley Subbasin covers approximately 227 square miles. The Pleasant Valley Subbasin occupies approximately 146,000 acres, and its perimeter is surrounded by tertiary continental and marine sediments of the Coastal Ranges and the west flank of the Kettleman Hills. The Pleasant Valley Subbasin is bordered on the west by the Coastal Ranges, on the south by the San Emigdio and Tehachapi Mountains, and on the north by the Sacramento-San Joaquin Delta and Sacramento Valley. The eastern boundary of the Pleasant Valley Subbasin is the alluvium-granite rock of the Sierra Nevada. The eastern boundary also borders the Westside and Tulare Lake Subbasins.

The estimated total dissolved solids ("TDS") of groundwater within the Pleasant Valley Subbasin ranges from 1,000 to 3,000 milligrams per liter ("mg/L"), with an average of 1,500 mg/L. Constituents in the groundwater include calcium, magnesium, sodium, bicarbonates, chlorides, sulfates, and boron. The high TDS concentrations limits the usability of groundwater in the Pleasant Valley Subbasin for most uses.

The City does not currently use groundwater as part of its water supply as groundwater in the area is unsuitable for drinking without treatment or blending. The City's groundwater is of poor quality due to the high concentrations of sodium, sulfates and TDS. This condition occurs at depths between 500 and 1,500 feet; therefore, groundwater has historically not been considered a viable source of potable water for the City. Even for crop irrigation, groundwater in the area is considered only of "marginal acceptability" because the groundwater tends to increase the concentrations of salts in the soil, further decreasing its agricultural suitability.

No Recycled Water. The City does not currently recycle effluent discharged from their Wastewater treatment facilities; however, the City will coordinate any future recycled water plans with local water, wastewater, groundwater, and planning agencies within and near the City's service area.

Water Purchases

Historical Water Purchases. As described under "Water Supply," the City purchases water from the USBR's Central Valley Project. Raw water purchased from USBR is then treated in the Water System's treatment plant before being distributed to water system customers. All distributed water meets State and Federal drinking water quality standards.

Historical Water System raw water purchases for Fiscal Years 2009-10 through 2019-20 are described in the table below.

Table 1
WATER SYSTEM
HISTORICAL WATER PURCHASES
(Amounts in Acre-feet)⁽¹⁾

Fiscal Year Ending June 30,	Water Purchased From USBR (in AF ⁽¹⁾)	Million Gallons (MG)
2010	4,923	1,604
2011	5,865	1,911
2012	5,930	1,932
2013	5,504	1,793
2014	4,950	1,613
2015	4,096	1,335
2016	4,299	1,401
2017	4,207	1,371
2018	7,812	2,546
2019	7,922	2,581
2020	7,929	2,584

Source: City of Coalinga as compiled by IGService.

Includes purchases for wholesale customers that were not processed through the City's water treatment plant. One acre-foot ("AF") equals 325,851 gallons, approximately equal to 436 billing units (hundred cubic feet). *Contingency Supplies Available.* The City has explored dry year water transfers with other agencies locally and statewide. It is estimated that up to 3,000 acre-feet of additional water from other customers within the San Luis Unit of the Central Valley Project could be purchased by the City as emergency water supply in critically dry years. Additional water could also be purchased from the Central Valley Project's agricultural customers that would sell their water allocation to the City and fallow their lands in order to make their allocated water available for transfer. However, this could potentially have a negative economic impact on the individual growers and the region.

It is also possible that the City could, as an emergency measure, drill sufficient new groundwater wells to provide an estimated additional 2,000 acre-feet of emergency water to meet health and safety needs in critically dry years. However, the groundwater under the City is generally unsuitable for drinking due to its high total dissolved solids concentration but could be suitable if blended with the treated surface water to meet health and safety needs in critically dry years.

Water Use

During fiscal year 2019-20, the Water System served a total population of approximately 17,200 through 3,823 active service connections. The Water System's average daily demand during the 2019-20 fiscal year was approximately 3.45 million gallons. The highest recent daily demand during the 2019-20 fiscal year was 7.35 million gallons, which occurred on June 29, 2020.

Water use varies due to changes in weather patterns, temperatures, and rainfall. Water demand increases during summer months and decreases during winter months. In the aftermath of recent drought

conditions throughout the state of California, the Water System’s customers have become more “water wise” with their selection of gardens and indoor water use units. Water conservation mandates such as the Governor’s executive orders in 2014 and 2015 and the City’s drought prevention measures have been effective in reducing water usage. Other recent initiatives that have contributed to declining water use have included new standards for plumbing fixtures, new landscape ordinances, and new green building standards. See “Water Conservation and Supply Shortage Contingency Measures.”

Daily, monthly, weekly, and hourly water system demand and peaking factor for the 2019-20 fiscal year are described in the table below.

Table 2
WATER SYSTEM
DEMAND and PEAKING FACTORS
Fiscal Year 2019-20

Demand Description	Demand (<i>in MGD</i>)	Peaking Factor
Average Day ⁽¹⁾	3.45	n/a
Max Month ⁽⁴⁾	153.00	n/a
Max Day ⁽²⁾	7.35	2.13
Peak Hour ⁽³⁾	12.07	3.50

Source: City of Coalinga as compiled by IGService.

Note: Peaking factor measures the ratio of the maximum flow to the average daily flow in the Water System.

(1) Based on 1,258 MG processed through the treatment plant, divided by 365 days.

(2) June 29, 2020.

(3) Based on average daily demand times 3.5 from 2005 Water Master Plan.

(4) July 2019 peak of 470 AF, which is 153 MG.

Historical Water Production and Consumption. The table below is a five-year history of the Water System’s total treated water supply and billed consumption. Water consumption is not equal to the water production. This is due to water meter inaccuracy, water loss during system maintenance, and leakage throughout the water distribution system. Water meter inaccuracies can be linked to the calibration, maintenance, and age of the device. The on-going operation and maintenance of the infrastructure is also a source of water loss due to water main flushing and fire hydrant testing. Continuous water leakage can also occur at pipe joints and fittings from several factors.

Table 3
WATER SYSTEM
TREATED WATER SUPPLY and CONSUMPTION

Fiscal Year Ending June 30,	Treated Water Supply (<i>in AF</i>)	Billed Consumption (<i>in AF</i>)	Unaccounted (<i>in AF</i>)	% Unaccounted
2016	3,507	3,108	399	11.38%
2017	3,635	3,287	348	9.57
2018	3,742	3,549	193	5.16
2019	3,757	3,261	496	13.20
2020	3,861	3,512	349	9.04

Source: City of Coalinga as compiled by IGService.

The unaccounted water was equal to approximately 9.04 percent of the total water produced in fiscal year 2019-20. In the future, the City will actively pursue customer meter accuracy testing and repairs of the distribution system in order to reduce water losses.

Water System Customers

Water Consumption by Customer Type. The following table shows the sources of water consumed by customers by customer type during the most recent five fiscal years.

Table 4
WATER SYSTEM
CONSUMPTION BY CUSTOMER TYPE
(Amounts in thousands of gallons unless otherwise specified)

Customer Type	Fiscal Year Ending June 30,				
	2016	2017	2018	2019	2020
Urban – Single Family Residential	337,957	382,214	447,368	398,683	480,721
Urban – Multi Family Residential	43,000	43,180	42,576	43,000	44,034
Urban - Nonresidential	313,576	294,770	284,142	276,000	267,850
Rural	102,312	109,589	104,908	89,593	113,142
Pleasant Valley State Prison	155,900	180,267	206,801	189,242	172,667
Coalinga State Hospital	60,000	61,052	70,593	66,082	65,862
Total Water Use (<i>in TG</i>)	1,012,745	1,071,072	1,156,389	1,062,600	1,144,276
Total Water Use (<i>in AF</i>)	3,108	3,287	3,549	3,261	3,512

Source: City of Coalinga as compiled by IGService.

The Water System’s urban customers are located in the centrally populated area of Coalinga and constitute approximately 98% of the Water System’s customer accounts.

Rural customers consist of oil companies, a feed lot, and several homes outside of the City center. Historically, from a cost-of-service standpoint, rural customers have paid a lower volumetric rate, but a higher fixed monthly rate. Rural customers do not have costs assigned for the local distribution system but are more burdensome because of the additional distances traveled for service calls and meter reading.

The Coalinga State Hospital (“CSH”) is a state mental hospital that has a capacity of approximately 1,260 beds. The Pleasant Valley State Prison (“PVSP”) is a 640-acre minimum-to-maximum security state prison that houses approximately 3,000 inmates.

Customer Accounts. All City water service is metered. The table below contains a breakdown of the Water System’s accounts by customer classes for the past five fiscal years. Over 46% of the Water System’s accounts in fiscal year 2019-20 were for residential customers.

Table 5
WATER SYSTEM
METERED ACCOUNTS BY CUSTOMER TYPE

Customer Type	Fiscal Year Ending June 30,				
	2016	2017	2018	2019	2020
Urban – Single Family Residential	3,089	3,096	3,124	3,176	3,236
Urban – Multi Family Residential	146	136	139	142	141
Urban - Nonresidential	366	366	351	361	365
Rural	68	74	78	78	77
Pleasant Valley State Prison	2	2	2	2	2
Coalinga State Hospital	2	2	2	2	2
Total Water Meters	3,673	3,676	3,696	3,761	3,823

Source: City of Coalinga as compiled by IGService.

Top 10 Water System Customers. The ten largest water users for the 2019-20 fiscal year, accounted for approximately 441,653 thousand gallons (“TG”) or approximately 39% of the Water System’s total annual water consumption. The following table shows the top ten water customers by consumption and the associated revenues for the 2019-20 fiscal year.

Table 6
WATER SYSTEM
TEN LARGEST CUSTOMERS
For Fiscal Year 2019-20

	Customer	Customer Type	FY2019-20	% of Total Consumption	FY2019-20	% of Total Revenues
			Consumption (in TG)		Revenues	
1.	Pleasant Valley State Prison	Government	172,667	15.09%	\$ 535,316	11.91%
2.	Coalinga State Hospital	Government	65,862	5.76	205,450	4.57
3.	Coalinga-Huron Schools	Schools	35,624	3.11	299,433	6.66
4.	West Hills College	Schools	35,529	3.10	128,496	2.86
5.	City of Coalinga	Government	31,724	2.77	137,481	3.06
6.	Coalinga-Huron Parks	Government	24,322	2.13	97,624	2.17
7.	Chevron USA, Inc.	Oil Production	21,521	1.88	63,146	1.41
8.	First Pacific	Mobil Home Park	19,105	1.67	37,632	0.84
9.	Coalinga Feed Lot	Livestock	18,963	1.66	63,712	1.42
10.	AERA Energy LLC	Oil Production	16,336	1.43	58,826	1.31
	Total Top 10		441,653	38.60	\$1,627,116	36.21%
	Total System		1,144,276		\$4,493,948	

Source: City of Coalinga as compiled by IGService.

Water System Rates

City staff collects monthly meter readings and bills customers for water monthly in a bill combined with Wastewater service, refuse service and other City-provided utilities.

The Water System's rate structure includes two components: 1) a monthly fixed service charge based upon the size of the customer's meter and 2) a volumetric or commodity charge based upon the total volume of water consumed by the customer during the billing period.

Rate Setting Process and Current Water System Rates. A Proposition 218-compliant notice was sent to all Water System customers as a billing insert with bills at the end of August, 2020. The notice explained the need for rate increases and provided the opportunity for customers to protest and attend the rate hearing on October 15, 2020. Resolution No. 3989, raising water and wastewater rates, was adopted by the City Council at the City Council's October 15, 2020 meeting by 5-0 vote and became effective as of November 1, 2020. The current rates for service in the Water System, as well as planned increases, are detailed in the table below together with the prior rates that were effective before the new rate structure went in to effect on November 1, 2020.

Table 7
WATER SYSTEM
RATES

Volumetric Charge (*per TG*)

Customer Type	<i>Prior Rate</i>	Rates Effective November 1,				
		2020	2021	2022	2023	2024
Urban – Residential	\$ 2.02	\$ 2.28	\$ 2.46	\$ 2.66	\$ 2.74	\$ 2.82
Urban – Commercial	1.91	2.28	2.47	2.67	2.75	2.83
Rural	1.86	2.23	2.41	2.60	2.68	2.76
CDC – PVSP and CSH	2.32	2.69	2.91	3.14	3.23	3.33

Fixed Monthly Charge

Customer Type & Meter Size	<i>Prior Rate</i>	Rates Effective November 1,				
		2020	2021	2022	2023	2024
Urban						
Residential & Commercial						
1"	\$ 23.81	\$ 27.62	29.83	\$ 32.22	\$ 33.19	\$ 34.19
1.5"	95.20	110.43	119.29	128.80	132.66	136.64
2"	360.41	418.08	451.53	487.65	502.28	517.35
3"	809.27	938.75	1,013.85	1,094.96	1,127.81	1,161.64
4"	1,438.98	1,669.22	1,802.76	1,946.98	2,005.39	2,065.55
6"	3,239.70	3,758.05	4,058.69	4,383.39	4,514.89	4,650.34
8"	5,759.92	6,681.51	7,216.03	7,793.31	8,027.11	8,267.92
10"	6,398.89	7,422.71	8,016.53	8,657.85	8,917.59	9,185.12
Rural						
1"	32.92	39.50	42.66	46.07	47.45	48.87
2"	131.77	158.12	170.77	184.43	189.96	195.66
1.5"	592.86	711.43	768.34	829.81	854.70	880.34
3"	1,333.57	1,600.28	1,728.30	1,866.56	1,922.56	1,980.24
4"	2,370.02	2,844.02	3,071.54	3,317.26	3,416.78	3,519.28
6"	5,335.79	6,402.95	6,915.19	7,468.41	7,692.46	7,923.23
8"	9,485.85	11,383.02	12,293.66	13,227.15	13,675.46	14,085.72
10"	10,539.67	12,647.60	13,659.41	14,752.16	15,194.72	15,650.56
Department of Corrections						
PVSP	11,156.00	12,940.96	13,976.24	15,094.34	15,547.17	16,013.59
CSH	3,152.78	3,657.22	3,949.80	4,265.78	4,393.75	4,525.56

Billing Procedures. Payment for water, Wastewater and other City provided utilities and services is due and payable on or before the 25th day following each applicable billing month. All bills that remain unpaid at 5:30 p.m. on the 25th of said month are be deemed delinquent. Delinquent accounts are subject to late fees and/or disconnection of services. The City does not discontinue utilities services for non-payment until payment by the customer has been delinquent for at least 30 days, after which period delinquent accounts are turned over to a collection agency. The City makes reasonable, good faith efforts to contact the account holder or other responsible party by USPS mail delivery once per week regarding the outstanding charges. Additionally, the City must provide notice to the customer of delinquency and pending termination at least seven (7) business days prior to the disconnection of services date.

SB 998. The City is in compliance with SB 998, the Water Shutoff Protection Act, regarding policies relating to the discontinuation of water service, which became effective on February 1, 2020. The City does not believe that the restriction imposed on residential water service for delinquent payments under SB 998, and as adopted by the City, will have a material adverse effect on the Water System's ability to make the scheduled Water Installment Payments.

In response to the coronavirus pandemic described under the caption "RISK FACTORS—COVID-19 Pandemic," on April 2, 2020, Governor Newsom signed Executive Order N- 42-20 ("Order N-42-20"), which, among other things, (i) suspends the authority of water systems, such as the Water System, from suspending water service for non-payment, (ii) orders that residential service to occupied residences that has been discontinued for nonpayment since March 4, 2020 be restored and (iii) provides that the State Water Resources Control Board ("SWRCB") will identify best practices, guidelines, or both to be implemented during the COVID-19 emergency (a) to address non-payment or reduced payments, (b) to promote and to ensure continuity of service by water systems and Wastewater systems, and (c) to provide measures such as the sharing of supplies, equipment and staffing to relieve water systems under financial distress. Order N-42-20 does not eliminate the obligation of water customers to pay for water service, prevent a water system, such as the Water System, from charging a customer for such service, or reduce the amount a customer already may owe to a water system, such as the Water System.

The City has reviewed Order N-42-20 and does not believe that such order will materially adversely affect the Water System's operating results or the Water System's ability to make the scheduled Water Installment Payments.

Water System Financial Statements

The Water System's audited financial statements for the 2018-19 fiscal year are included in the City's Audited Financial Statements, attached hereto as APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019.

Water System Net Position. The following table presents the audited Statements of Net Position of the Water System for the four most recent fiscal years and unaudited actuals for fiscal year 2019-20.

Table 8
WATER SYSTEM
STATEMENT OF NET POSITION

	Fiscal Year Ended June 30,				
	2016 Audited	2017 Audited	2018 Audited	2019 Audited	2020 Unaudited
ASSETS					
<i>Current Assets:</i>					
Cash and investments	\$ 27,003	-	-	-	\$ 883,016
Cash and investments with fiscal agent	2,137,249	\$2,138,406	\$2,152,889	\$2,188,615	1,402,380
Accounts receivable	417,484	490,568	421,115	711,824	462,886
Interest receivable	-	-	-	1,878	1,318
Due from other governments	-	-	-	31,957	7,305
Due from other funds	-	-	-	-	-
Total Current Assets	2,581,736	2,628,974	2,574,004	2,934,274	2,756,905
<i>Non-Current Assets:</i>					
Property, plant and equipment	11,311,933	10,735,652	11,385,907	11,210,906	11,210,906
Total Non-Current Assets	11,311,933	10,735,652	11,385,907	11,210,906	11,210,906
Total Assets	13,893,669	13,364,626	13,959,911	14,145,180	13,967,811
Deferred Flows of Resources					
Deferred flows related to pensions	(77,112)	(150,416)	(108,567)	(130,781)	(130,781)
LIABILITIES					
<i>Current Liabilities:</i>					
Accounts payable	274,066	190,854	276,513	365,354	780,669
Accrued liabilities	10,860	12,913	13,989	13,989	13,989
Deposits	20,900	24,500	34,100	36,500	38,900
Due to other funds	388,451	199,363	245,159	77,579	0
Current long-term debt	-	-	-	-	-
Total Current Liabilities	694,277	427,630	569,761	493,422	833,558
<i>Non-Current Liabilities:</i>					
Advances from other funds	9,975,000	9,740,000	9,585,000	9,425,000	9,260,000
Compensated absences	47,129	44,715	47,681	56,212	56,212
Net pension liabilities	-	19,552	50,860	39,265	39,265
Total Non-Current Liabilities	10,022,129	9,804,267	9,683,541	9,520,477	9,355,477
Total Liabilities	10,716,406	10,231,897	10,253,302	10,013,899	10,189,035
Net Position					
Net investment in capital assets	3,411,409	3,219,622	3,953,796	1,785,906	1,950,906
Restricted for debt service	2,137,249	2,138,406	-	-	-
Unrestricted	(2,294,283)	(1,989,319)	(138,620)	2,476,156	1,958,651
Total Net Position	3,254,375	3,368,709	3,815,176	4,262,062	3,909,557

Source: City of Coalinga FY2016-19 Audited Financial Statements and City of Coalinga.

Water System Revenues, Expenses, and Changes in Net Position. The following table presents the audited Statement of Revenues, Expenses and Changes in Net Position for the Water System for the three most recent fiscal years, unaudited actuals for fiscal year 2019-20, and budgeted projections for the 2020-21 fiscal year taken from the City's fiscal year 2020-21 budget, adopted June 23, 2020. See "Water System Historical and Projected Operating Results" for a five-year historical comparison of revenues and expenses of the Water System and a projection of the revenues and expenses, including projected debt service coverage.

Table 9
WATER SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ending June 30,				
	2017	2018	2019	2020	2021
	Audited	Audited	Audited	Unaudited	Budgeted
OPERATING REVENUES					
Charges for services	\$ 4,627,680	\$ 5,360,197	\$ 5,187,766	\$ 5,624,235	\$ 5,984,000
Connection charges	2,775	10,150	20,986	1,575	10,000
Total Operating Revenue	4,630,455	5,370,347	5,208,752	5,625,810	5,994,000
OPERATING EXPENSES					
Personnel	1,031,102	1,031,380	981,262	1,110,194	1,504,293
Contractual services and utilities	1,317,689	1,337,770	1,510,872	1,503,887	1,282,850
Supplies and materials	715,321	725,350	762,481	641,386	1,199,605
Cost of sales	606,223	1,014,718	823,031	1,390,000	945,000
Bad debt	49,167	102,226	-	75,000	16,000
Depreciation	422,543	427,460	456,683	-	450,000
Total Operating Expense	4,142,045	4,638,904	4,534,329	4,720,467	5,397,748
OPERATING INCOME	488,410	731,443	674,423	905,343	596,252
NONOPERATING REVENUES					
Developer impact fees	54,257	170,345	192,301	12,883	50,000
Interest income	2,361	16,787	48,987	6,195	1,000
Miscellaneous	152,490	750	3,267	8,413	2,000
Gain on sale of assets	(102,707)	-	6,482	-	-
Interest expense	(480,477)	(472,858)	(465,610)	(460,330)	(454,555)
Total Nonoperating Revenue	(374,076)	(284,976)	(214,573)	(432,839)	(401,555)
CHANGE IN NET POSITION	114,334	446,467	459,850	472,504	194,697
NET POSITION - Beginning of Year	3,254,375	3,368,709	3,815,176	4,275,026	4,747,530
NET POSITION - End of Year	3,368,709	3,815,176	4,275,026	4,747,530	4,942,227

Source: City of Coalinga FY2017-19 Audited Financial Statements and City of Coalinga.

Water System Historical and Planned Capital Improvements

In recent years the City has completed two significant capital improvement projects for the Water System that were financed using the proceeds from the 2012 Bonds. First, the construction of the new Palmer water tank was completed in 2014 at a cost of approximately \$2,900,000. Second, the looping of the Jayne Avenue transmission main was completed in 2018 at a cost of approximately \$800,000. The remaining balance from the 2012 Bonds, approximately \$1,400,000 (which includes interest earned), is presently being used for the upgrade of the Supervisory Control and Data Acquisition (“SCADA”) system at the water treatment plant.

The City currently forecasts that \$1,500,000 in additional pay-go financing will be required to complete Phase 2 of the upgrade of the SCADA system at the water treatment plant. The City has also forecasted \$1,000,000 in expenses related repairs and other capital expenses related to the Oil King and Northwest reservoirs, however these amounts are expected to be separately allocated to the Water System’s oil company customers. The City does not currently anticipate any other material capital improvement projects that would be funded using pay-go financing.

For a summary of planned capital improvements to be financed with the proceeds of the Series 2021B Bonds, see “THE FINANCING PLAN—The Water Improvement Project.”

Water System Historical and Projected Operating Results and Debt Service Coverage

The following table presents the Historical Summary of Gross Revenues, Maintenance and Operation Costs and debt service coverage for the Water System for the five most recent fiscal years. The data is based on figures from the City's audited financial statements and unaudited actuals for fiscal year 2019-20.

Table 10
WATER SYSTEM
HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE

	Fiscal Year Ended June 30,				
	2016	2017	2018	2019	2020
	Audited	Audited	Audited	Audited	Unaudited
REVENUES:					
Rate-Based Revenues	\$ 4,220,489	\$ 4,345,215	\$ 4,595,645	\$ 4,487,270	\$ 4,490,000
Untreated Water Sales	587,412	124,265	764,252	699,933	1,133,950
Acct Services & Miscellaneous	14,506	158,200	300	563	285
Impact Fee Revenue	13,349	54,257	170,345	192,301	12,883
Miscellaneous Revenue	-	-	750	3,267	6,195
Interest Income	239	2,361	16,687	48,987	6,195
Installation Charges	1,250	2,775	10,150	20,986	1,575
Total Revenues	<u>4,837,245</u>	<u>4,687,073</u>	<u>5,558,129</u>	<u>5,453,307</u>	<u>5,651,083</u>
OPERATION & MAINTENANCE					
EXPENSES:					
PG&E Electricity	666,124	727,188	643,174	666,000	708,848
Westlands Canal Fees	215,618	177,866	118,050	212,500	263,855
Contractual Services	260,340	412,635	576,546	632,372	531,184
Personnel	950,211	1,031,102	1,031,380	981,262	1,110,194
Supplies and Material	906,144	715,321	725,350	762,481	641,386
Cost of Wholesale Water	750,189	606,223	1,014,718	1,050,000	1,390,000
Bad Debt	44,401	49,167	102,226	-	75,000
Total Operating Expenses	<u>3,793,027</u>	<u>3,719,502</u>	<u>4,211,444</u>	<u>4,304,615</u>	<u>4,720,467</u>
NET REVENUES AVAILABLE FOR DEBT SERVICE	<u>1,044,218</u>	<u>967,571</u>	<u>1,346,685</u>	<u>1,148,692</u>	<u>930,616</u>
DEBT SERVICE					
1993 Bonds	242,856	242,784	-	-	-
2012 Bonds	470,493	470,493	625,493	625,610	625,330
Total Debt Service	<u>713,349</u>	<u>713,277</u>	<u>625,493</u>	<u>625,610</u>	<u>625,330</u>
DEBT SERVICE COVERAGE RATIO	1.46x	1.36x	2.15x	1.84x	1.49x
NET REVENUES AFTER DEBT SERVICE	330,869	254,294	721,192	523,082	305,286

Source: City of Coalinga Audited Financial Statements and City of Coalinga

The following table presents the Projected Summary of Gross Revenues, Maintenance and Operation Costs and debt service coverage for the next five most recent fiscal years. Projections for fiscal year 2020-21 are based on projected revenues for the Water System from the City's 2020-21 Budget, adopted June 23, 2020.

While the City believes that these assumptions are reasonable, the City cannot guarantee that the Water System's actual results will not differ. The projections in the following table do not include any capital projects planned by the Water System.

Table 11
WATER SYSTEM
PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE

	Fiscal Year Ending June 30,				
	2021 Projected	2022 Projected	2023 Projected	2024 Projected	2025 Projected
REVENUES:					
Rate-Based Revenues	\$4,970,000	\$5,550,000	\$5,990,000	\$6,320,000	\$6,510,000
Untreated Water Sales	447,600	537,600	537,600	537,600	537,600
Acct Services & Miscellaneous	1,000	1,000	1,000	1,000	1,000
Impact Fee Revenue	-	-	-	-	-
Miscellaneous Revenue	1,500	1,500	1,500	1,500	1,500
Interest Income	1,000	5,000	5,000	5,000	5,000
Installation Charges	10,000	10,000	10,000	10,000	10,000
Total Revenues	<u>5,431,100</u>	<u>6,105,100</u>	<u>6,545,100</u>	<u>6,875,100</u>	<u>7,065,100</u>
OPERATION & MAINTENANCE EXPENSES:					
PG&E Electricity	730,000	752,000	775,000	798,000	822,000
Westlands Canal Fees	385,000	280,000	280,000	280,000	280,000
Contractual Services	500,000	515,000	530,000	546,000	562,000
Personnel	1,165,704	1,386,000	1,455,000	1,528,000	1,604,000
Supplies and Material	974,000	1,003,000	1,033,000	1,064,000	1,096,000
Cost of Wholesale Water	1,040,000	1,071,000	1,103,000	1,136,000	1,170,000
Bad Debt	75,000	75,000	75,000	75,000	75,000
Total Operating Expenses	<u>4,869,704</u>	<u>5,082,000</u>	<u>5,251,000</u>	<u>5,427,000</u>	<u>5,609,000</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE	<u>561,396</u>	<u>1,023,100</u>	<u>1,294,100</u>	<u>1,448,100</u>	<u>1,456,100</u>
DEBT SERVICE					
2012 Bonds	227,278	-	-	-	-
2021A Bonds ⁽¹⁾	-	446,428	676,032	682,440	682,808
2021B Bonds ⁽¹⁾	-	309,848	291,400	345,600	342,600
Total Debt Service ⁽¹⁾	<u>227,278</u>	<u>756,276</u>	<u>967,432</u>	<u>1,028,040</u>	<u>1,025,408</u>
DEBT SERVICE COVERAGE RATIO ⁽¹⁾	2.47x	1.35x	1.34x	1.41x	1.42x
NET REVENUE AFTER DEBT SERVICE ⁽¹⁾	334,118	266,824	326,668	420,060	430,692

Source: City of Coalinga

(1) Preliminary, subject to change.

[FOOTNOTES WITH ASSUMPTIONS TO COME]

City staff has been authorized by resolution of the City Council to adjust water rates to insure that Water System revenues are sufficient to cover the total expenses of providing water, including depreciation, administration, debt service coverage levels, and required capital outlay. For additional information, see "WATER RATES" above.

Water Conservation and Supply Shortage Contingency Measures

City Drought Prevention Measures. California Water Code Section 375 et. seq. permits public entities that supply water for retail purposes to adopt and enforce a water conservation program, with the intent of reducing the quantity of water used by people and to conserve the water supplies of the public entity. In March 2009, the City Council adopted Ordinance No. 746, which established a Water Conservation Plan. Title 6, Chapter 4C of the Coalinga Municipal Code implements mandatory restrictions related to the conservation of water. The City's Water Conservation Plan is a three-stage plan with stage one consisting of standard conservation measures always in effect, stage two consisting of high conservation measures to be implemented upon a significant reduction or interruption in water supply or delivery that necessitates increased water conservation efforts and stage three which consists of emergency conservation measures to be implemented in the event of a major earthquake, large-scale fire, or other "act of nature" which seriously impacts the City's total available water storage or delivery capacity.

Over the last few years, the City has been more pro-active in response to water wasting. Water wasting within the City is prevented by prohibiting the hosing of sidewalks, walkways, driveways, parking areas, patios, porches or verandas. In addition, water wasting is prevented by prohibiting runoff into the street gutters, establishing a 72-hour time frame limit to fix leaks or breaks, requiring the use of outdoor hoses with a shut-off nozzle and prohibiting watering during the heat of the day.

The City does not currently have a drought surcharge rate ordinance and provisions to recover costs directly caused by drought are not built into the City's base rates. "Drought surcharges" are surcharges that can be implemented in times of water shortage. A drought surcharge is different from a conservation rate structure, which is in place at all times. Agencies, like the City, may choose to embed a drought rate structure within their conservation rate structure. The City intends to cover the costs for any drought related expenses and the shortage in revenues from operational reserves. If the duration of a drought period is such that reserves are exhausted the City may elect to implement a drought surcharge at that time.

California 2011-17 Drought; State Emergency Measures and Continuing Efforts. California has a highly variable climate, and often experiences very wet years followed by extremely dry ones. During the last thirty-five years, the State experienced drought periods between 1986 and 1992, between 2007 and 2009, and between 2011 and 2017.

The drought from December 2011 to March 2017 was considered one of the worst in the State's recorded history, with 2012 through 2015 having the driest four-year statewide precipitation on record. Between 2014 and 2015, the Governor issued two emergency proclamations (on January 14, 2014 and April 25, 2014) and four executive orders (Executive Orders B-26-14, B-28-14, B-29-15 and B-36-15). During this period, the SWRCB adopted and implemented regulations for water use reductions and restrictions. Among such actions, the SWRCB adopted emergency regulations in 2015 to achieve a 25% reduction in the overall potable urban production statewide in accordance with directives set forth in Executive Order B-29-15. It was reported that, overall, the State saved an average of more than 24% during the twelve months that the mandate was in place. In addition, the Sustainable Groundwater Management Act of 2014 was enacted. The State developed a five-year California Water Action Plan, with the stated goals of more reliable water supplies, the restoration of important species and habitat, and a more resilient, sustainably managed water resources system (water supply, water quality, flood protection, and environment). The Sustainable Groundwater Management Act of 2014 applies to unregulated areas.

On May 16, 2016, the Governor issued Executive Order B-37-16, which among other things, directed: (i) the State Department of Water Resources to work with the SWRCB to develop new water use targets as part of a permanent framework for urban water agencies, (ii) the permanent requirement of urban water suppliers to issue monthly reports of their water usage, conservation amounts and enforcement efforts, (iii) the prohibition of wasteful potable water practices (such as hosing of sidewalks, watering lawns in a manner that causes runoff); (iv) California Energy Commission's certification of innovative water conservation and water loss detection and control technologies that also increase energy efficiency; and (v) consultation by the State Department of Water Resources with urban water suppliers, local governments, environmental groups and other partners to update requirements for water shortage contingency plans.

On April 7, 2017, Governor Brown issued Executive Order B-10-17, rescinding the two emergency proclamations from January and April 2014 and the four drought related Executive Orders issued in 2014 and 2015. However, Executive Order B-37-16 was largely left in place.

Executive Order B-10-17 terminated the drought state of emergency for all counties in the State, except for the County and the counties of Kings and Tuolumne with directives for those particular counties. The Water System is located in the County.

The City cannot predict if and when California will experience another drought, and the actions that the State will have to take in response. The State is continuing to implement the directives of Executive Order B-37-16, dubbed "Making Water Conservation a California Way of Life." The implementation of the Sustainable Groundwater Management Act of 2014 and the additional directives under Executive Order B-10-17 for the County and the counties of Kings and Tuolumne also continues.

PFAS

The City is monitoring and responding to developing legislation, laws and regulations regarding per- and poly-fluoroalkyl substances ("PFAS"). PFAS are substances widely used in consumer and industrial products such as fabrics, carpets, firefighting foams, food packaging and nonstick cookware and are known for their nonstick, waterproof and heat and stain resistant properties. Starting in the early 2000s, manufacturers began phasing out the use of PFAS chemicals, most of which are no longer manufactured in the United States. PFAS chemicals have been linked to cancer, liver and kidney damage, low birth weight and other health problems.

California's current response level for the combined values of perfluorooctane sulfonate ("PFOS") and perfluorooctanoic acid ("PFOA") (the two most common synthetic organic chemicals in the group of compounds referred to as PFAS) is 70 parts per trillion ("ppt"), but the California Division of Drinking Water ("DDW") is expected to lower the response level to 10 ppt in 2020. Response levels are thresholds at which the DDW recommends water systems remove a water source from use. If an agency does not remove the source, the DDW requires the agency notify its local governing body, notify all customers directly explaining the reasons for the continued use of the source, issue a press release, and conduct regular sampling.

In August 2019, the DDW lowered the notification levels for PFOS from 13 ppt to 6.5 ppt and for PFOA from 14 ppt to 5.1 ppt. Notification levels are non-regulatory, precautionary health-based measures for concentrations of chemicals in drinking water that warrant notification and further monitoring and assessment. On July 31, 2019, Governor Newsom signed Assembly Bill 756 into law which increased PFAS notification and now imposes additional reporting requirements on public water systems, including the Water System.

The City is assessing whether PFOA and PFOS are present in its purchased water, and, if so, to what extent. The City's purchased water may be impacted based on its source, raw surface water from the Sacramento-San Joaquin Delta delivered by the Central Valley Project. The water quality of the City's purchased water is also vulnerable to activities that are not associated with any detected contaminants such as concentrated aquatic animal production facilities, historic waste dumps/landfills, landfills/dumps, historic mining operations, and Wastewater treatment plants and disposal facilities.

Due to uncertainty of future PFOA and PFOS-related impacts to the Water System's water sources it is difficult to estimate the impact on the Water System's finances as a result of the costs of PFOA and PFOS-related mitigation measures. This type of impact on its water supply could prompt the City to revisit its current costs of service and consider, if needed, an increase to the water rates to cover the additional expense. Any water rate increases will be subject to Proposition 218 process, including City Council approval.

THE WASTEWATER SYSTEM

General

The City operates and maintains the Wastewater System which consists of a Citywide wastewater collection and treatment system. The Wastewater System collects and treats Wastewater generated from residential and commercial customers; there are currently no significant industrial users that discharge Wastewater into the Wastewater System. All residences and businesses in the City are required to connect to the Wastewater System.

The Wastewater System's collection and conveyance facilities include approximately _____ linear feet of sanitary sewer pipeline ranging from six inches to twenty-four inches in diameter, with approximately _____ access structures, mostly manholes. The Wastewater System's collection system includes 4 lift stations and a Wastewater treatment plant capable of treating up to a maximum of 1.3 MGD of Wastewater flow.

The small pipes (typically 4 inches in diameter) that connect homes and businesses to the Wastewater System are called service laterals. Each property owner is responsible for the maintenance of the complete service lateral, including the portion of such lateral placed in the public right-of-way or easement.

The Wastewater generated by Wastewater System customers flows from service laterals through the collection system to the City's Wastewater treatment plant. The treatment plant was constructed in the 1940s and updated substantially in 1977. The Wastewater treatment plant is located 2.5 miles west of the center of the City on Melcher Road. The treatment plant treats approximately 1.0 MGD of Wastewater and is permitted for a maximum capacity of 1.32 MGD. For additional information about the Wastewater System's facilities, see "Wastewater System Facilities."

The City does not currently recycle effluent discharged from its wastewater treatment facilities; however, the City will coordinate any future recycled water plans with local water, Wastewater, groundwater, and planning agencies within and near the City's service area.

Wastewater System Management

The Wastewater System is operated by the City's Utilities Department and is managed by the Utilities Supervisor. The Utilities Supervisor supervises seven staff members. Generally, staff members perform administrative, engineering, construction and maintenance, water treatment, water quality, preventive maintenance, and customer service activities.

Alvaro Preciado, Chief Plant Operator, manages the operation of the wastewater treatment plant. Mr. Preciado has over twenty years of operating experience and has been with the City for twenty-six years. Mr. Preciado has an AA degree from West Hills College and holds a Water Treatment T-2 and Water Distribution D-2 certificate.

Wastewater System Employee Relations

Service Employees International Union Local 521 represents the Wastewater System's non-management employees as a collective bargaining unit. The current contract expires on June 30, 2022. The Wastewater System has not experienced a labor stoppage or an interruption in service since its inception.

Wastewater System Facilities

The City's Wastewater System is comprised of a network of over _____ miles of sanitary sewer pipeline with sizes ranging from six to 24-inches in diameter, four lift stations located at various locations within the City and their associated force mains, and a Wastewater treatment plant.

The backbone of the sewer collection system consists of a series of sewer trunk lines and sewers interceptor. The sewer interceptors typically include larger pipelines, approximately 21-inches or larger, while the sewer trunk lines typically range from 12 to 18-inches. The lift stations raise Wastewater flows to higher elevation in order to continue gravity flow at reasonable slopes and depths. The sewer trunk lines and sewer interceptor's function to convey Wastewater collected in the Wastewater System to the Wastewater System's Wastewater treatment plant (the "WWTP").

The City owns and operates the WWTP under California Regional Water Quality Control Board ("RWQCB") Waste Discharge Requirements ("WDRs") Order No. 94-184. The WWTP treats and disposes municipal Wastewater generated by residences and businesses within the City. The WWTP is located at the confluence of Los Gatos Creek and Warthan Creek, approximately one mile east of the City. The treatment process at the WWTP consists of screening, primary clarification, and secondary treatment (aerated facultative lagoons followed by stabilization lagoons). Treated effluent quality is undisinfected secondary effluent as described in Section 30301.900 of Title 22 of the California Code of Regulations ("CCR").

The WWTP has undergone two major modifications and additions over the last 40 years. According to WDR Order No. 76-180, the WWTP originally consisted of a primary clarifier followed by three oxidation ponds in series. Final disposal consisted of irrigating land controlled by the City and West Hills Community College for agricultural reclamation. At that time, the WWTP's treatment capacity was 0.6 MGD.

In 1980 the City submitted a Report of Waste Discharge for the expansion of the existing treatment capacity from 0.6 MGD to 0.93 MGD. The modifications consisted of influent screening followed by aerated facultative lagoons and stabilization ponds. Final effluent disposal was consistent with previous practices on City-owned land and West Hills Community College grounds. These modifications and additions were implemented in 1982. WDR Order No. 80-064 was adopted on May 26, 1980.

In 1991, the City submitted a Report of Waste Discharge in support of a change in operation and an increase in quantity of discharge from its municipal WWTP. The treatment capacity was increased from 0.93 MGD to the current 1.34 MGD. The City completed the rehabilitation of the primary clarifier and aerobic digester, which were removed from service during the previous plant modification. The existing WWTP includes a bar screen, a primary clarifier, an aerobic sludge digester, sludge drying beds, two aerated facultative lagoons each with a surface area of three acres, and three stabilization ponds having a total surface area of 11 acres. Currently, treated effluent is pumped from one of the stabilization ponds to adjacent land,

where it percolates into the soil and is used to recharge the groundwater table. By way of this process, the majority of the treated domestic Wastewater is recycled as groundwater recharge.

Stormwater Collection System. The Wastewater System also contains a stormwater collection system that consists of several independent networks of storm drain inlets and pipes that either discharge into four permanent storm drain basins or the Warthan or Los Gatos Creeks. The storm drainage system operates as a gravity flow system and does not require the use of pump stations or lift stations. The existing storm drain system consists of pipes up to 48-inches in diameter and twelve drainage zones. Several portions of the storm drain system are severely undersized, and the system relies on aboveground surface flow through street curbs and gutters as a means of stormwater conveyance.

Wastewater System Service Area

The Wastewater System provides Wastewater collection, transmission, treatment, and disposal services for the developed area within its service area. The Wastewater System's service area comprises the City boundaries, an area of approximately 2.6 square miles with a population of approximately 17,200. All of the residents and businesses residing within the Wastewater System's service area are required to connect to the Wastewater System. There are currently no significant industrial users that discharge into the Wastewater System.

Future Growth in the Service Area. The Wastewater System's service area is contained within the service area for the Water System. For a description of future growth within City and the Wastewater System's service area, see "THE WATER SYSTEM—Water System Service Area—Future Growth in Service Area" herein.

Service Area Map. The Wastewater System's service area is contained within the service area for the Water System. For a map of the Water System's service area, see "THE WATER SYSTEM—Water System Service Area—Service Area Map" herein.

Wastewater System Use

The Wastewater System's average daily flow during the 2019-20 fiscal year was approximately _____ MGD. The highest recent daily flow during the 2019-20 fiscal year was _____ MGD. The WWTP has a maximum permitted capacity of 1.32 MGD.

Wastewater System Customers

Wastewater Accounts by Customer Type. The following table shows the number of customer accounts by customer type during the most recent five fiscal years.

Table 12
WASTEWATER SYSTEM
ACCOUNTS BY CUSTOMER TYPE

Customer Type	Fiscal Year Ending June 30,				
	2016	2017	2018	2019	2020
Residential	3,162	3,168	3,190	3,249	3,311
Non-Residential	209	202	198	225	222
Total Water Use	3,371	3,370	3,388	3,474	3,533

Source: City of Coalinga as compiled by IGService.

Over 75% of Wastewater System revenues are generated from residential customers, with non-residential customers accounting for the rest of the Wastewater System's revenues.

Top 10 Wastewater System Customers. The ten largest Wastewater customers for the 2019-20 fiscal year by revenue, accounted for approximately 27.27% of the Wastewater System's total revenues. The following table shows the top ten Wastewater customers by revenues for the 2019-20 fiscal year.

Table 13
WASTEWATER SYSTEM
TEN LARGEST CUSTOMERS
For Fiscal Year 2019-20

	Customer	Customer Type	FY2019-20 Revenues	% of Total Revenues
1.	Coalinga-Huron Schools	Education	\$ 88,605	7.94%
2.	West Hills College	Education	64,924	5.82
3.	First Pacific	Mobile Home Park	24,837	2.23
4.	Coalinga Station B	Apartments	23,896	2.14
5.	Sequoia Packing	Food Processing	21,159	1.90
6.	Westwood Apartments	Apartments	19,380	1.74
7.	Echo Canyon Apartments	Apartments	16,606	1.49
8.	Warthan Place Apartments	Apartments	15,429	1.38
9.	Tara Glenn Apartments	Apartments	15,053	1.35
10.	Northern Pacific Properties	Mobile Home Park	14,300	1.28
	Total Top 10		\$304,189	27.27%
	Total Wastewater System		\$1,115,346	100.00%

Source: City of Coalinga as compiled by IGService.

Wastewater System Rates

Rate Setting Process and Current Water System Rates. A Proposition 218-compliant notice was sent to all Wastewater System customers as a billing insert with bills at the end of August, 2020. The notice

explained the need for rate increases and provided the opportunity for customers to protest and attend the rate hearing on October 15, 2020. Resolution No. 3989, raising water and Wastewater rates, was adopted by the City Council at the City Council's October 15, 2020 meeting by 5-0 vote and became effective as of November 1, 2020. The current rates for service in the Wastewater System, as well as planned increases, are detailed in the table below together with the prior rates that were effective until the new rate structure went in to effect on November 1, 2020. The prior rates had been effective since 2005.

Under the new rate structure, all residential customers are charged a fixed monthly charge regardless of customer flow with multi-family residential customers being charged for each dwelling unit. Non-residential customers are charged 1) a fixed minimum monthly charge and 2) an additional volumetric rate charge based on that customer's metered potable water volume purchased from the Water System. Educational customers are charged a single volumetric variable rate charge based on metered potable water volume purchased from the Water System.

Table 14
WASTEWATER SYSTEM
RATES

Customer Type	<i>Prior Rate</i>	Rates Effective November 1,				
		2020	2021	2022	2023	2024
RESIDENTIAL CUSTOMERS						
Flat Charge (<i>per dwelling unit</i>)	\$ 15.68	\$ 21.95	\$ 22.61	\$ 23.29	\$ 23.99	\$ 24.71
NON-RESIDENTIAL CUSTOMERS						
<i>With landscape meters (per ccf of potable water delivered)</i>	2.59	4.86	5.01	5.16	5.31	5.47
<i>Without landscape meters (per ccf of potable water delivered)</i>	2.32	4.86	5.01	5.16	5.31	5.47

Source: City of Coalinga.

Billing Procedures. Bills for Wastewater, water and other City utilities and services is done collectively on a single monthly bill with itemized charges for each service. For additional information about the Wastewater System's billing procedures, see "THE WATER SYSTEM – Water System Rates – Billing Procedures."

SB 998. The City is in compliance with SB 998, the Water Shutoff Protection Act, regarding policies relating to the discontinuation of Wastewater service, which became effective on February 1, 2020. The City does not believe that the restriction imposed on residential water service for delinquent payments under SB 998, and as adopted by the City, will have a material adverse effect on the Wastewater System's ability to make the scheduled Wastewater Installment Payments.

In response to the coronavirus pandemic described under the caption "RISK FACTORS—COVID-19 Pandemic," on April 2, 2020, Governor Newsom signed Executive Order N- 42-20 ("Order N-42-20"), which, among other things, (i) suspends the authority of Wastewater systems, such as the Wastewater System, from suspending water service for non-payment, (ii) orders that residential service to occupied residences that has been discontinued for nonpayment since March 4, 2020 be restored and (iii) provides that the State Water Resources Control Board ("SWRCB") will identify best practices, guidelines, or both to be implemented during the COVID-19 emergency (a) to address non-payment or reduced payments, (b) to promote and to ensure continuity of service by water systems and Wastewater systems, and (c) to provide measures such as the sharing of supplies, equipment and staffing to relieve water systems under financial distress. Order N-42-20 does not eliminate the obligation of water customers to pay for

water service, prevent a water system, such as the Wastewater System, from charging a customer for such service, or reduce the amount a customer already may owe to a water system, such as the Wastewater System.

The City has reviewed Order N-42-20 and does not believe that such order will materially adversely affect the Wastewater System's operating results or the Wastewater System's ability to make the scheduled Wastewater Installment Payments.

Wastewater System Financial Statements

The Wastewater System's audited financial statements for the 2018-19 fiscal year are included in the City's Audited Financial Statements, attached hereto as APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019.

Wastewater System Net Position. The following table presents the audited Statements of Net Position of the Wastewater System for the four most recent fiscal years and unaudited actuals for fiscal year 2019-20.

Table 15
WASTEWATER SYSTEM
STATEMENT OF NET POSITION

	Fiscal Year Ended June 30,				
	2016 Audited	2017 Audited	2018 Audited	2019 Audited	2020 Unaudited
ASSETS					
<i>Current Assets:</i>					
Cash and investments	\$2,163,755	\$3,079,895	\$3,318,423	\$3,103,864	\$3,303,012
Cash and investments with fiscal agent	702,181	702,561	707,319	719,057	726,828
Accounts receivable	135,490	137,247	156,881	99,095	102,391
Interest receivable	-	2,366	-	-	2,873
Due from other governments	-	-	-	14,480	3,543
Due from other funds	667,767	-	-	311,861	-
Total Current Assets	3,669,193	3,922,069	4,182,623	4,248,357	4,138,647
<i>Non-Current Assets:</i>					
Property, plant and equipment	5,965,041	5,734,815	5,699,373	5,802,391	5,802,391
Total Non-Current Assets	5,965,041	5,734,815	5,699,373	5,802,391	5,802,391
Total Assets	9,634,234	9,656,884	9,881,996	10,050,748	9,941,038
Deferred Flows of Resources					
Deferred flows related to pensions	(18,515)	(58,937)	(50,966)	(62,304)	(62,304)
Liabilities					
<i>Current Liabilities:</i>					
Accounts payable	16,402	31,503	68,674	86,446	42,255
Accrued liabilities	4,088	5,752	6,923	6,923	6,923
Deposits	-	-	-	-	-
Due to other funds	-	-	-	-	-
Current long-term debt	46,377	46,377	46,377	23,187	3,864
Total Current Liabilities	66,867	83,632	121,974	116,556	53,042
<i>Non-Current Liabilities:</i>					
Advances from other funds	3,090,000	3,090,000	3,040,000	2,990,000	2,940,000
Long-term debt	112,076	69,564	23,188	29,910	29,910
Compensated absences	17,081	19,350	23,188	-	-
Net pension liabilities	-	7,728	24,230	18,706	18,706
Total Non-Current Liabilities	3,219,157	3,186,642	3,110,606	3,038,616	2,988,616
Total Liabilities	3,286,024	3,270,274	3,232,580	3,155,172	3,041,658
Net Position					
Net investment in capital assets	3,395,019	3,231,055	3,366,692	5,779,204	5,798,527
Restricted for debt service	702,181	702,561	69,565	69,565	69,565
Unrestricted	2,269,525	2,511,931	3,266,577	1,109,111	1,093,592
Total Net Position	6,366,725	6,445,547	6,702,834	6,957,880	6,961,684

Source: City of Coalinga FY2016-19 Audited Financial Statements and City of Coalinga.

Wastewater System Revenues, Expenses, and Changes in Net Position. The following table presents the audited Statement of Revenues, Expenses and Changes in Net Position for the Wastewater System for the three most recent fiscal years, unaudited actuals for fiscal year 2019-20, and budgeted projections for the 2020-21 fiscal year from the City's fiscal year 2020-21 Budget. See "Wastewater System Historical and Projected Operating Results" for a five-year historical comparison of revenues and expenses of the Wastewater Fund and a projection of the revenues and expenses, including projected debt service coverage.

Table 16
WASTEWATER SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ending June 30,				
	2017 Audited	2018 Audited	2019 Audited	2020 Unaudited	2021 Budgeted
OPERATING REVENUES					
Charges for services	\$1,185,591	\$1,180,108	\$1,004,633	\$1,114,596	\$1,190,000
Connection charges	1,500	11,000	-	750	2,000
Total Operating Revenue	1,187,091	1,191,108	1,004,633	1,115,346	1,192,000
OPERATING EXPENSES					
Personnel	382,786	477,267	466,460	537,966	717,264
Contractual services and utilities	206,610	327,218	298,288	251,366	483,112
Supplies and materials	124,009	191,955	148,279	168,495	323,838
Cost of sales	-	-	-	-	-
Bad debt	15,017	45,341	-	30,000	13,000
Depreciation	261,573	268,301	248,076	250,000	-
Total Operating Expense	989,995	1,310,082	1,161,103	1,237,827	1,537,214
OPERATING INCOME	197,096	(118,974)	(156,470)	(122,481)	(345,214)
NONOPERATING REVENUES					
Developer impact fees	-	454,983	525,796	34,866	-
Interest income	6,340	23,688	14,694	18,244	3,500
Rental Income	22,700	45,400	-	11,350	34,000
Miscellaneous	1,959	1,463	20,918	-	-
Gain on sale of assets	-	-	(2,194)	-	-
Interest expense	(149,273)	(149,273)	(147,698)	(146,048)	(144,298)
Total Nonoperating Revenue	(118,274)	376,261	411,516	(81,588)	(106,798)
CHANGE IN NET POSITION	78,822	257,287	255,046	(204,069)	(452,012)
NET POSITION - Beginning of Year	6,366,725	6,445,547	6,702,834	6,957,880	6,753,811
NET POSITION - End of Year	6,445,547	6,702,834	6,957,880	6,753,811	6,301,799

Source: City of Coalinga FY2017-19 Audited Financial Statements and City of Coalinga.

Wastewater System Historical and Planned Capital Improvements

There were no major capital improvements made to the Wastewater System within the last five years and no major capital improvements are expected during the next five years.

Wastewater System Historical and Projected Operating Results and Debt Service Coverage

The following table presents the Historical Summary of Gross Revenues, Maintenance and Operation Costs and debt service coverage for the Wastewater System for the five most recent fiscal years. The data is based on figures from the City's audited financial statements and fiscal year 2019-20 unaudited actuals.

Table 17
WASTEWATER SYSTEM
HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE

	Fiscal Year Ended June 30,				
	2016	2017	2018	2019	2020
	Audited	Audited	Audited	Audited	Unaudited
REVENUES:					
Operating Revenue	\$1,072,797	\$1,187,091	\$1,191,108	\$1,004,633	\$1,115,346
Impact Fee Revenue	-	-	454,983	525,796	34,866
Investment Earnings	1,375	6,340	23,688	14,694	18,244
Rental Income & Misc	45,400	22,700	46,863	20,918	11,350
Rate Stabilization Fund ¹	-	-	-	-	300,000
Total Revenues	<u>1,119,572</u>	<u>1,216,131</u>	<u>1,716,642</u>	<u>1,566,041</u>	<u>1,479,806</u>
OPERATION & MAINTENANCE EXPENSES:					
Contractual Services and Utilities	153,791	206,610	327,218	298,288	251,366
Personnel	376,221	382,786	477,267	466,460	537,966
Supplies and Material	270,956	124,009	191,955	148,279	168,495
Bad Debt	13,866	15,017	45,341	-	30,000
Total Expenses	<u>814,834</u>	<u>728,422</u>	<u>1,041,781</u>	<u>913,027</u>	<u>987,827</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE	<u>304,738</u>	<u>487,709</u>	<u>674,861</u>	<u>653,014</u>	<u>491,979</u>
DEBT SERVICE					
2012 Bonds	<u>149,285</u>	<u>149,273</u>	<u>199,273</u>	<u>197,698</u>	<u>196,048</u>
Total Debt Service	<u>149,285</u>	<u>149,273</u>	<u>199,273</u>	<u>197,698</u>	<u>196,048</u>
DEBT SERVICE COVERAGE RATIO	2.02x	3.27x	3.39x	3.30x	2.51x
NET REVENUES AFTER DEBT SERVICE	155,453	338,436	475,588	455,316	295,931

Source: City of Coalinga

The following table presents the Projected Summary of Gross Revenues, Maintenance and Operation Costs and debt service coverage for the next five most recent fiscal years. Projections for fiscal year 2020-21 are based on projected revenues for the Wastewater System from the City's 2020-21 Budget, adopted June 23, 2020.

While the City believes that these assumptions are reasonable, the City cannot guarantee that the Wastewater System's actual results will not differ. The projections in the following table do not include any capital projects planned by the Wastewater System.

Table 18
WASTEWATER SYSTEM
PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE

	Fiscal Year Ending June 30,				
	2021 Budgeted	2022 Projected	2023 Projected	2024 Projected	2025 Projected
REVENUES:					
Operating Revenue	\$ 1,362,750	\$ 1,599,133	\$ 1,647,106	\$ 1,696,520	\$ 1,747,415
Impact Fee Revenue	-	-	-	-	-
Investment Earnings	15,000	15,000	15,000	15,000	15,000
Rental Income & Misc	34,000	20,000	20,000	20,000	20,000
Rate Stabilization Fund ⁽¹⁾	-	-	-	-	-
Total Revenues	1,411,750	1,634,133	1,682,106	1,731,520	1,782,415
OPERATION & MAINTENANCE EXPENSES:					
Contractual Services and Utilities	307,000	316,000	325,000	335,000	345,000
Personnel	564,864	700,000	735,000	772,000	811,000
Supplies and Material	313,000	322,000	332,000	342,000	352,000
Bad Debt	30,000	30,000	30,000	30,000	30,000
Total Expenses	1,214,864	1,368,000	1,422,000	1,479,000	1,538,000
NET INCOME AVAILABLE FOR DEBT SERVICE	196,886	266,133	260,106	252,520	244,415
DEBT SERVICE					
2012 Bonds	72,149	-	-	-	-
2021A Bonds ⁽¹⁾	-	100,709	153,212	152,393	156,373
Total Debt Service ⁽¹⁾	72,149	100,709	153,212	152,393	156,373
DEBT SERVICE COVERAGE RATIO ⁽¹⁾	2.73x	2.64x	1.70x	1.66x	1.56x
NET REVENUE AFTER DEBT SERVICE ⁽¹⁾	124,737	165,424	106,894	100,127	88,043

Source: City of Coalinga

(1) Preliminary, subject to change.

[FOOTNOTES WITH ASSUMPTIONS TO COME]

GENERAL CITY INFORMATION APPLICABLE TO BOTH THE WATER SYSTEM AND THE WASTEWATER SYSTEM

Risk Management

The City is a member of the Public Agency Risk Sharing Authority for California ("PARSAC"), a public entity risk pool in which there is a transferring (sharing) of risk among the pool participants. The City pays an annual premium to PARSAC for its general liability coverage. PARSAC is self-sustaining through member premiums. The City is insured under a retrospectively rated policy in which the initial premium is adjusted based on actual experience during the period of coverage. The City is responsible for all claims up to \$25,000 per occurrence for general and auto liability with a coverage limit at June 30, 2014 of \$975,000.

The City's risk management program also includes fire, property and automobile insurance. The coverage includes an all risk-replacement cost blanket. Additionally, the City has property insurance coverage up to \$975,000 per occurrence.

The City provides worker's compensation and employer's liability coverage on all employees through PARSAC. This insurance is paid entirely by the City. All premiums are paid by the appropriate fund designation for each employee's salary and benefits. In the risk management program for the City, a proactive approach is taken toward work safety for employees. Various training sessions and inspections are conducted throughout the year. The result has been a continued reduction of work-related injury claims.

See APPENDIX B— AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019, Note 12.

Employee Pension Plans

The Water System and Wastewater System each pay an allocable portion of the City's administrative expenses, including employee compensation and benefits from their respective Net Revenues. The table below shows the City's contribution to the CalPERS Miscellaneous plans (discussed below), and the amounts allocated to each system for the years shown:

CONTRIBUTION TO CALPERS MISCELLANEOUS PLANS AND ALLOCATION TO WATER SYSTEM

<u>Fiscal Year Ended June 30,</u>	<u>City Contribution To CalPERS Misc Plans</u>	<u>Amount Allocated To Water System</u>	<u>Water System Allocation %</u>	<u>Amount Allocated To Wastewater System</u>	<u>Wastewater System Allocation %</u>
2015	\$ 278,931				
2016	165,587				
2017	200,782				
2018	194,921				
2019	177,734				
2020					

Source: City of Coalinga.

General Information about the City's CalPERS Plans. All qualified permanent and probationary employees are eligible to participate in either (1) the City's Miscellaneous Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System ("CalPERS"), which acts as a common investment and administrative agent for its participating member employers, or (2) the City's Safety Plan, a cost-sharing multiple employer defined benefit pension plan administered by CalPERS. They may be collectively referred to as the "Plans" or individually as a "Plan". Benefit provisions under the Plans are established by State statute and City resolutions. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-duty

disability benefits after five (5) 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 Employees' Retirement Law.

Contributions. Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

Net Pension Liability. The City's net pension liability for both Plans is measured as the total pension liability, less the plan's fiduciary net position. As of June 30, 2020, the City reported a net pension liability for its Miscellaneous Plans of \$_____ and a net pension liability for its Safety Plans of \$_____. The Water System's portion of the City's total net pension liability as of June 30, 2020, is approximately \$_____ million. The Wastewater System's portion of the City's total net pension liability as of June 30, 2020, is approximately \$_____ million.

For more information, including actuarial assumptions, a discussion of the discount rate used, and schedules of funding progress for the Water System's various pension plans, see APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019, NOTE 11.

Recent Actions Taken by CalPERS. At its April 17, 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. As a result, CalPERS now employs an amortization and smoothing policy that will pay for all gains and losses over a 20-year period with a five-year ramp-up, and five-year ramp-down, 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 Board of Administration 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 increased 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 Board of Administration 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 City or the Underwriter and is not incorporated in this Official Statement by reference.*

On December 21, 2016, the Board of Administration voted to lower its discount rate from the current 7.5% to 7.0% over the next three years according to the following schedule.

Fiscal Year	Discount Rate
2017-18	7.375%
2018-19	7.250
2019-20	7.000

For public agencies like the City, the new discount rate took effect on July 1, 2019. As the discount rate is decreased employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Public Employees' Pension Reform Act will also see their contribution rates rise. The three-year reduction of the discount rate will result in average employer rate increases of about 1% to 3% of normal cost as a percent of payroll for most miscellaneous retirement plans, and a 2% to 5% increase for most safety plans. Additionally, many CalPERS employers will see a 30 to 40% increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring the pension fund to a fully funded status over the long-term.

PERS Amortization Period Reform. On February 13, 2018 the CalPERS Board voted to shorten the period over which actuarial gains and losses are amortized from 30 years to 20 years for new pension liabilities. The new 20-year amortization period begins with new gains or losses accrued starting with the June 30, 2019 actuarial valuations. The first payments on the new 20-year amortization schedule will take place in 2021.

A shorter amortization period will increase annual Unfunded Accrued Liability ("UAL") contributions for cities that participate in CalPERS so long as CalPERS remains underfunded. The shortened amortization period will also lead to reductions of periods of negative amortization of the UAL, interest cost savings, and faster recoveries of funded status after market downturns.

Cities that participate in CalPERS will also see additional volatility in their future UAL contributions due to market performance as gains or losses will be amortized faster under the new amortization period.

The City cannot currently estimate the impact the shorter amortization period will have on its required contributions to CalPERS.

COVID-19 Impacts on CalPERS Contributions. The outbreak of COVID-19 has caused volatility in the financial markets in the United States and globally resulting in significant declines and speculation of a national and global recession. The City expects that the impacts of COVID-19 will cause its required CalPERS contributions to increase in future years.

Other Post-Employment Benefits

Plan Description. The City offers medical, dental, vision, chiropractic and prescription insurance coverage, as well as group life insurance coverage, to employees and their dependents. Additionally, the City offers an employee assistance program to assist employees and their families with problem assessment and short-term counseling needs. The City pays a portion of premiums in connection with the insurance coverage offered by the City.

The Water System and the Wastewater System each pay an allocable portion of any City OPEB expenses from their respective Net Revenues.

For additional information about the City's OPEB, see APPENDIX B— AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019, NOTE 10.

INVESTMENT OF CITY FUNDS

Revenues collected by the City will be held and invested by the City in accordance with the provisions of the Indenture.

Funds held by the City, including Water System and Wastewater System moneys, are invested in accordance with the City's Statement of Investment Policy (the "Investment Policy") prepared by the Finance Director as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the City Council annually. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. Invested funds are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years. The City has never invested in derivatives or reverse repurchase agreements and such investments and instruments are not allowed by City policy.

For more information about the City's investment policy, see APPENDIX C—CITY INVESTMENT POLICY.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. In the past, the voters have exercised this power from time to time, including through the adoption of Propositions 13 and 218.

From time to time other State and local initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Article XIII A

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the maximum ad valorem tax on real property to 1% of full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the County Assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the full cash value based in the event of declining property values caused by damage, destruction, or other factors and to provide that there would be no increase in the full cash value base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Article XIII B

Article XIII B of the California State 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 appropriations limit is the 1978-79 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 sources 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 the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts 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 the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

Proposition 218

General. On November 5, 1996, California voters approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related “fee” or “charge,” which is defined as “any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to in this section as a “property-related fee or charge”).

Specifically, under Article XIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

In addition, Article XIIC provides that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and sewer services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and sewer charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing

connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (39 Cal. 4th 205), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was not determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Current Practice Regarding Rates and Charges. The City's practice has been to provide public notice of proposed water rate increases through means that include, among others, holding informational presentations at community group meetings, mailings to residential and commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the City Council. The most recent rate increase was enacted by the City in strict compliance with the procedures mandated by Proposition 218 and *Bighorn*.

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted. Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness. 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 sewer, or to call into question previously adopted sewer rate increases.

Effect of Proposition 218 on the City; Possible Limitations on Enforcement Remedies.

The general financial condition of the City may be affected by provisions of Article XIII C and Article XIII D. In particular, provisions of Article XIII C (i) require taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the General Fund, to be approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges are subject to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles relating to the impairment of contracts. Provisions of Article XIII D that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (i) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

The ability of the City to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay the Installment Payments and, therefore, the principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIII C or Article XIII D by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Installment Sale Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the Installment Sale Agreement, the rights and obligations under the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Installment Sale Agreement, including its covenants to generate sufficient Net Revenues, as a consequence of the application of Article XIII C and Article XIII D, or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

Proposition 26

On November 2, 2010, State voters approved Proposition 26 which amended certain sections of Article XIII C. The proposition attempts to define "tax" as used within Article XIII C as "any levy, charge, or exaction of any kind imposed by a local government, *except* the following: (1) 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; (2) 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; (3) 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; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) 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; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.” 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 foregoing discussion of Proposition 218 and Proposition 26 should not be considered an exhaustive or authoritative treatment of the provisions of such propositions or the possible effects of Proposition 218 and Proposition 26. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 and Proposition 26 may impact the City’s ability to make debt service payments on the Bonds. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Future Initiatives

Articles XIIC, XIID and Proposition 26 were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting Net Revenues or the City’s ability to increase its rates for water service. See “Proposition 218” above. The California constitution, Article XIID, Section 5(c), specifically recognizes that any assessment existing on the effective date (of Article XIID) shall be exempt from the procedures and approval process set forth in Article 4, to wit: “....(c) Any assessment the proceeds of which are exclusively used to repay bonded indebtedness of which the failure to pay would violate the Contract Impairment Clause of the Constitution of the United States.”

RISK FACTORS RELATING TO THE BONDS

Payment by the City of the Installment Payments and, therefore, of principal of and interest on the Bonds, depends primarily upon the Net Revenues derived from operation of the Water System and the Wastewater System. Some of the events which could affect the revenues received by the Water System and the Wastewater System are set forth below. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and the order in which the risks are discussed does not necessarily reflect the relative importance of the various risks.

Limited Obligations

The Water Installment Payments are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Water System Net Revenues. The obligation of the City to pay debt service on the Bonds from Water System Net Revenues does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Water Installment Sale Agreement to make Water Installment Payments solely from Water System Net Revenues. There is no assurance that the City can succeed in

operating the Water System such that the Water System Net Revenues in the future will be sufficient for that purpose.

The Wastewater Installment Payments are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Wastewater System Net Revenues. The obligation of the City to pay debt service on the Series A Bonds from Wastewater System Net Revenues does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Wastewater Installment Sale Agreement to make Wastewater Installment Payments solely from Wastewater System Net Revenues. There is no assurance that the City can succeed in operating the Wastewater System such that the Wastewater System Net Revenues in the future will be sufficient for that purpose.

Maintenance and Operation Costs

There can be no assurance that the City's expenses for the Water System or the Wastewater System will be consistent with the descriptions in this Official Statement. Changes in technology, changes in quality standards, loss of large customers, increased or decreased development, increases in the cost of operation, or other expenses could require increases in rates or charges in order to comply with the City's rate covenants in the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement.

Limited Recourse on Default

Failure by the City to make Water Installment Payments constitutes an event of default under the Water Installment Sale Agreement and the Trustee is permitted to pursue remedies at law or in equity to enforce the City's obligation to make such payments. Although the Trustee has the right to accelerate the total unpaid principal amount of the Water Installment Payments, there is no assurance that the City would have sufficient funds to pay the accelerated amounts.

Failure by the City to make Wastewater Installment Payments constitutes an event of default under the Wastewater Installment Sale Agreement and the Trustee is permitted to pursue remedies at law or in equity to enforce the City's obligation to make such payments. Although the Trustee has the right to accelerate the total unpaid principal amount of the Wastewater Installment Payments, there is no assurance that the City would have sufficient funds to pay the accelerated amounts.

Limitations on Remedies

The ability of the City to comply with its covenants under the Water Installment Sale Agreement and to generate Water System Net Revenues sufficient to pay the Water Installment Payments and, therefore, of principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. Furthermore, the remedies available to the owners of the Bonds upon the occurrence of an event of default under the Water Installment Sale Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

The ability of the City to comply with its covenants under the Wastewater Installment Sale Agreement and to generate Wastewater System Net Revenues sufficient to pay the Wastewater Installment Payments and, therefore, of principal of and interest on the Series A Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. Furthermore, the remedies available to the owners of the Series A Bonds upon the occurrence of an event of default under the Wastewater Installment Sale Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Initiatives

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. There is no assurance that the electorate or the State legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Water System Net Revenues and/or Wastewater System Net Revenues and adversely affect the security for the Bonds. See CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218.”

Bankruptcy

The rights and remedies provided in the Water Installment Sale Agreement, the Wastewater Installment Sale Agreement and the Indenture may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws or equitable principles that may affect the enforcement of creditors’ rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to the Bonds, the Water Installment Sale Agreement, the Wastewater Installment Sale Agreement and the Indenture, including the opinions of Bond Counsel, will be similarly qualified. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Bonds and the City could be prohibited from taking any steps to enforce their rights under the Indenture.

Additional Obligations

The Water Installment Sale Agreement permits the incurrence of obligations by the City secured by Water System Net Revenues on a parity basis or a subordinate basis to the Water Installment Sale Agreement. Such additional obligations would increase debt service payable from Water System Net Revenues and could adversely affect debt service coverage with respect to the Bonds. In such event, however, the rate covenant in the Water Installment Sale Agreement will remain in effect. See “SECURITY FOR THE BONDS—Rates, Fees and Charges.”

The Wastewater Installment Sale Agreement permits the incurrence of obligations by the City secured by Wastewater System Net Revenues on a parity basis or a subordinate basis to the Wastewater Installment Sale Agreement. Such additional obligations would increase debt service payable from Wastewater System Net Revenues and could adversely affect debt service coverage with respect to the Bonds. In such event, however, the rate covenant in the Wastewater Installment Sale Agreement will remain in effect. See “SECURITY FOR THE BONDS—Rates, Fees and Charges.”

Impacts of COVID-19 Pandemic

The spread of the novel strain of coronavirus and the disease it causes (now known as “COVID-19”) is having and has had significant negative impacts throughout the world, including in the County. The World Health Organization has declared the COVID-19 outbreak to be a pandemic and states of emergency have been declared by the United States, the State, and numerous counties throughout the State, including the County. The purpose behind these declarations is to coordinate and formalize emergency actions and across federal, state and local governmental agencies, and to proactively prepare for a wider spread of the virus. The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread temporary closings of businesses, universities and schools. The United States is restricting certain non-United States citizens and permanent residents from entering the country. In addition, financial markets in the United States and globally have been volatile, with significant declines attributed to coronavirus concerns.

Potential impacts to the Water System and the Wastewater System associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the public health system in and around the Water System’s and the Wastewater System’s service areas, disruption of the regional and local economy with corresponding decreases in Water System and the Wastewater System revenues, and temporary reductions in Water System Net Revenues due to late payments from Water System customers and reductions in Wastewater System Net Revenues due to late payments from Wastewater System customers.

The United States, the State, the County and the City have each declared a “state of emergency” or equivalent. Additionally, the State, the County and the City have issued “stay at home” or “shelter in place” orders that severely restrict the movement of residents and generally mandate that residents remain in their home and, in effect, prohibit non-essential workers from working outside their homes. Due to these orders, the City has closed its offices except to employees, has put staff on alternating schedules to allow for more physical separation and has encouraged staff members to work from home when possible. While many services the City provides have been reduced, essential services, like those provided by the Water System and the Wastewater System, have continued to operate without interruption.

Additionally, the COVID-19 pandemic and resulting restrictions have resulted in volatility in the global and national stock markets, closure of businesses, worker layoffs and furloughs and a surge in unemployment claims. As a result, the COVID-19 pandemic may result in a decreased ability of customers of the Water System and the Wastewater System to pay bills for services provided by the Water System and the Wastewater System. Although the City had previously discontinued Wastewater shut-offs for non-payment, on April 2, 2020, Governor Gavin Newsom signed Executive Order N-42-20 which universally enacts an immediate moratorium on such shutoffs.

The COVID-19 outbreak is ongoing and the ultimate duration and severity of the outbreak and economic impact it has is currently uncertain. The City continues to analyze the effects the COVID-19 pandemic will have on the Water System and the Wastewater System. The City believes that it will have the ability to delay the implementation of certain capital improvement plans, if necessary, in order to meet the cash flow needs of the Water System and the Wastewater System, including payment of debt service on the Bonds.

Seismic Considerations

The City, like much of California, is subject to seismic activity that could result in interference with operation of the Water System and the Wastewater System. There are several major active fault zones transecting the County that could cause “strong ground motion” at the site of the various facilities constituting the Water System and the Wastewater System during their useful life. If there were to be an occurrence of severe seismic activity in the area of the City, there could be an interruption in the service provided by the Water System and the Wastewater System resulting in a temporary reduction in the amount of Water System Net Revenues available to pay the Water Installment Payments and, therefore, the principal of and interest on the Bonds when due and there could be an interruption in the service provided by the Wastewater System resulting in a temporary reduction in the amount of Wastewater System Net Revenues available to pay the Wastewater Installment Payments and, therefore, the principal of and interest on the Serie A Bonds when due.

Drought and Climate Change

Indications of climate change have been observed over the last several decades throughout California. Statewide average temperatures have increased by about 1.7°F from 1895 to 2011, with the greatest warming in the Sierra Nevada. Although the State’s weather has followed the expected pattern of a largely Mediterranean climate throughout the past century, no consistent trend in the overall amount of precipitation has been detected, except that a larger proportion of total precipitation is falling as rain instead of snow.

With regards to climate, the Water System’s revenues vary depending on the amount of precipitation and subsequently on stage of water conservation that they City is in. In dry years, local demands will decrease as a consequence of prohibitions on certain water uses, and the Water System may receive lower than anticipated revenues due to reduced sales volumes. In contrast, in wet years, demands increase as prohibitions are lifted, and revenues increase due to higher sales volumes.

Such revenue surpluses and shortages could cause instability in Water System rates. To mitigate this risk, the City maintains financial reserves, with a minimum and target balance, to stabilize water rates during times of reduced water sales. The reserves hold revenues collected during times of high-water sales and are used to offset the need for revenues during times of low sales.

Water agencies that rely solely on surface water, such as the Water System, are more likely to experience water shortages than those agencies relying primarily on groundwater. The amount of Central Valley Project water available each year for the Water System is based, among other factors, on the storage of winter precipitation and the control of spring runoff in the Sacramento and San Joaquin River basins. The schedule of Central Valley Project water conveyed to and diverted from these rivers is determined by state water right permits, judicial decisions, and state and federal obligations to maintain water quality, enhance environmental conditions, and prevent flooding. As a result, the Water System’s surface water allocation may be decreased due to conditions outside of the City’s control. In addition to water allocation reductions, water supply shortages or interruptions can occur due to extended periods of drought, unexpected system failures, canal maintenance, regional power outages, earthquakes, etc.

While additional water sources are available to the Water System, the acquisition of additional water supplies would carry additional costs that could affect the Water System’s ability to make the Water Installment Payments.

Cybersecurity

The City relies on computers and technology to conduct its operations, including the operation of the Water System and the Wastewater System. The City and its departments face cyber threats from time to time including, but not limited to, hacking, viruses, malware and other forms of technology attacks. While no network is completely immune from all possible compromise, the City exercises its due diligence in protecting the data it possesses and the systems it operates. To date, there have been no significant cyber-attacks on the City's computers and technologies.

While the City is routinely maintaining its technology systems and continuously implementing new information security controls, no assurances can be given that the City's security and operational control measures will be successful in guarding against all cyber threats and attacks. The results of any attack on the City's computer and technology could negatively impact the City's operations and the operation of the Water System and the Wastewater System, and the costs related to such attacks could be substantial.

Secondary Market

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.

Risks Relating to the Municipal Bond Insurance Policies

In the event of default of the payment of principal of interest on the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Municipal Bond Insurance Policies for such payments. The Municipal Bond Insurance Policies do not insure against redemption premium, if any. The payment of principal of interest in connection with mandatory sinking fund or optional prepayment of the Bonds by the Authority which is recovered by the Authority from the Owner as a voidable preference under applicable bankruptcy law is covered by the Municipal Bond Insurance Policies, however, such payments will be made by the Municipal Bond Insurer at such time and in such amounts as would have been due absent such prepayment by the Authority unless the Municipal Bond Insurer chooses to pay such amounts at an earlier date.

The Municipal Bond Insurer may direct and must consent to any remedies and the Municipal Bond Insurer's consent may be required in connection with amendments to any applicable legal documents.

In the event the Municipal Bond Insurer is unable to make payment of principal and interest as such payments become due under the Municipal Bond Insurance Policies, the Bonds are payable solely from the moneys received pursuant to the applicable legal documents. In the event the Municipal Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Municipal Bond Insurer and its claim paying ability. The financial strength and claims paying ability of the Municipal Bond Insurer are predicated upon a number of factors which could change over time. No assurance is given

that the long-term ratings of the Municipal Bond Insurer and of the ratings on the Bonds will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See “RATINGS.”

The obligations of the Municipal Bond Insurer are general obligations of the Municipal Bond Insurer and in an event of default by the Municipal Bond Insurer, the remedies available may be limited by applicable bankruptcy law or other similar laws related to insolvency.

None of the Authority, the City or the Underwriter has made independent investigation into the claims paying ability of the Municipal Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Municipal Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to make the Water System Installment Payments and the Wastewater Installment Payments and the claims paying ability of the Municipal Bond Insurer, particularly over the life of the investment.

LEGAL MATTERS

All legal matters in connection with the issuance, sale and delivery of the Bonds are subject to the approval of Quint & Thimmig LLP, Larkspur, California, Bond Counsel. Bond Counsel’s opinion with respect to the Bonds will be substantially in the form set forth in APPENDIX E—FORMS OF FINAL OPINIONS OF BOND COUNSEL. Certain legal matters will also be passed on for the City by Quint & Thimmig LLP, as Disclosure Counsel, and for the Authority and the City by Giswold, LaSalle, Cobb, Dowd & Gin, LLP, Hanford, California, Authority Counsel and City Attorney. Certain matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. The fees and expenses of Special Counsel, Disclosure Counsel and counsel to the Underwriter are contingent upon the issuance and delivery of the Bonds.

ABSENCE OF LITIGATION

At the time of delivery of and payment for the Bonds, the City and the Authority will certify that there is no action, suit, proceedings, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City and the Authority, threatened against the City or the Authority affecting the existence of the City or the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Water Installment Sale Agreement, or the pledge of Water System Net Revenues thereunder, or the Wastewater Installment Sale Agreement, or the pledge of Wastewater System Net Revenues thereunder, or any action of the City or the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or the Authority with respect to the Bonds or any action of the City or the Authority contemplated by any of said documents, nor to the knowledge of the City or the Authority, is there any basis therefor.

RATINGS

S&P Global Ratings (“S&P”) is expected to assign the rating of “AA” (stable outlook) to the Bonds based on the issuance of the Municipal Bond Insurance Policies by the Municipal Bond Insurer at the time of delivery of the Bonds. See “MUNICIPAL BOND INSURANCE.” In addition, S&P has assigned the underlying rating of “___” (stable outlook) to the Bonds without regard to the issuance of the Municipal Bond Insurance Policies. These ratings reflect only the views of S&P and an explanation of the significance of such rating may be obtained from S&P. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by S&P, if in the judgment of the S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Bond Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Water System and the Wastewater System by not later than nine months following the end of the City’s fiscal year (currently ending June 30) (the “Annual Report”), commencing with the report for the fiscal year ended June 30, 2020, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board through the Electronic Municipal Access (EMMA) System. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with the Rule.

In the last five years, the City was obligated to file financial information and operating data with respect to the following issues:

- a. Coalinga Public Financing Authority Local Obligation Revenue Bonds, 1998 Series A, 1998 Series B and 1998 Series C (the “1998 Bonds”);
- b. Redevelopment Agency of the City of Coalinga, Coalinga Redevelopment Project, Tax Allocation Bonds, Series 2000 (the “2000 Bonds”);
- c. Redevelopment Agency of the City of Coalinga, Coalinga Redevelopment Project, Tax Allocation Bonds, 2009 Series A, 2009 Series B and 2009 Series C (the “2009 Bonds”); and
- d. 2012 Bonds.

In most cases, the City was substantially late in filing the required financial information and operating data for each of these issues. The City retained an independent dissemination agent to assist it in compiling and filing all required financial information and operating data and all filings have been made to bring the City into compliance for each issue. The 2009 Bonds are no longer outstanding.

In addition, on February 4, 2021, the City adopted Disclosure Procedures for Public Debt Issuances.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will verify as to the Escrow Agreement, the mathematical accuracy as of the date of the closing and delivery of the Series A Bonds of the computations contained in the provided schedules to determine that the maturing Escrowed Securities, the interest earning thereon and the cash deposited in the Escrow Fund shall be sufficient to pay, when due, the principal of and interest on the 2012 Bonds to and including April 1, 2022, and to pay the Redemption Price on the Redemption Date.

The report of the Verification Agent will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

TAX MATTERS

Series A Bonds. Interest on the Series A Bonds is includible in gross income for federal income purposes. Ownership of the Series A Bonds may result in other federal income tax consequences to certain taxpayers. Owners should consult their tax advisors with respect to the inclusion of interest with respect to the Series A Bonds in gross income for federal income tax purposes and any collateral tax consequences.

In the opinion of Bond Counsel, interest on the Series A Bonds is exempt from California personal income taxes.

Ownership of the Series A Bonds may result in other State and local tax consequences to certain taxpayers, and Bond Counsel expresses no opinion regarding any such consequences arising with respect to the Series A Bonds.

The complete text of the final opinion that Bond Counsel expects to deliver upon the delivery of the Series A Bonds is set forth in APPENDIX E—FORMS OF FINAL OPINIONS OF BOND COUNSEL.

Series B Bonds. Federal tax law contains a number of requirements and restrictions which apply to the Series B Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Authority and the City have covenanted to comply with all requirements that must be satisfied in order for the interest on the Series B Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest with respect to the Series B Bonds to become includable in gross income for federal income tax purposes retroactively to the date of delivery of the Series B Bonds.

Subject to the Authority's and the City's compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Bond Counsel, interest on the Series B Bonds is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals.

In rendering its opinion, Bond Counsel will rely upon certifications of the Authority and the City with respect to certain material facts within their knowledge. Bond Counsel's opinion represents its legal

judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax (“AMT”) for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation’s alternative minimum taxable income (“AMTI”), which is the corporations’ taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation’s “adjusted current earnings” over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). “Adjusted current earnings” would generally include certain tax-exempt interest, but not interest on the Series B Bonds.

Ownership of the Series B Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series B Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the “Issue Price”) for each maturity of the Series B Bonds is the price at which a substantial amount of such maturity of the Series B Bonds is first sold to the public. The Issue Price of a maturity of the Series B Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

Owners of Series B Bonds who dispose of Series B Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Series B Bonds in the initial public offering, but at a price different from the Issue Price, or purchase Series B Bonds subsequent to the initial public offering, should consult their own tax advisors.

If a Series B Bond is purchased at any time for a price that is less than the Series B Bond’s stated redemption price at maturity (the “Reduced Issue Price”), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series B Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser’s election, as it accrues. Such treatment would apply to any purchaser who purchases a Series B Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series B Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series B Bonds.

An investor may purchase a Series B Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an investor on a constant yield basis over the remaining term of the Series B Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor’s basis in the Series B Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond

premium and its effect on the Series B Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Series B Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Series B Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to Series B Bonds issued prior to enactment. Prospective purchasers of the Series B Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Series B Bonds. If an audit is commenced, under current procedures the Service may treat the Authority or the City as a taxpayer and the Series B Bond Owners may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Series B Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest with respect to, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Series B Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Series B Bond Owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Series B Bond Owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Bond Counsel, interest with respect to the Series B Bonds is exempt from California personal income taxes.

Ownership of the Series B Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series B Bonds. Prospective purchasers of the Series B Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the delivery of the Series B Bonds is set forth in APPENDIX E—FORMS OF FINAL OPINIONS OF BOND COUNSEL.

UNDERWRITING

The Series A Bonds are being purchased by Oppenheimer & Co., Inc. (the "Underwriter") at a price of \$ _____ (consisting of the \$ _____ .00 aggregate principal amount of the Series A Bonds, less \$ _____ of Underwriter's discount). The Underwriter may offer and sell the Series A Bonds to certain dealers and others at prices different from the prices stated on the inside cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

The Series B Bonds are being purchased by the Underwriter at a price of \$_____ (consisting of the \$_____ aggregate principal amount of the Series B Bonds, plus a net original issue premium of \$_____, less \$_____ of Underwriter's discount). The Underwriter may offer and sell the Series B Bonds to certain dealers and others at prices different from the prices stated on the inside cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

MUNICIPAL ADVISOR

The City has entered into an agreement with Wulff Hansen & Co. (the "Municipal Advisor"), whereunder the Municipal Advisor is providing municipal advisory services to the City with respect to preparation and sale of the Bonds. The Municipal Advisor has read and participated in the drafting of certain portions of this Official Statement. The Municipal Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the City with respect to accuracy and completeness of disclosure of such information, and the Municipal Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Official Statement or any other matter related to the Official Statement. The compensation of the Municipal Advisor is contingent upon the sale of the Bonds.

FINANCIAL STATEMENTS

The City's financial statements for the fiscal year ended June 30, 2019, included in APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019, have been audited by the City's Auditor, as stated in its reports appearing in such appendix. The City's auditor has not undertaken to update its reports or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the City's Auditor with respect to any event subsequent to its report.

OTHER INFORMATION

All summaries and explanations of the Act, the Indenture, the Installment Sale Agreement and the other documents referred to herein are qualified in their entirety by reference to the Act and such documents and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture.

Any statements in this Official Statement involving matters of opinion are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of the Bonds.

Copies of the Indenture and the Installment Sale Agreement are available for inspection at the Principal Corporate Trust Office of the Trustee.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City, including a summary of significant accounting policies, for the fiscal year ended June 30, 2019, are contained in Appendix B.

The execution and delivery of this Official Statement have been duly authorized by the Authority and the City.

COALINGA PUBLIC FINANCING
AUTHORITY

By _____
Executive Director

CITY OF COALINGA

By _____
City Manager

APPENDIX A

GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY

The information in this section of the Official Statement is presented as general background data. The Water Installment Payments and the Wastewater Installment Payments are payable solely from the net revenues of the Water System and the Wastewater System, respectively, and other sources as described in the Official Statement. The taxing power of the City of Coalinga (the “City”), the State of California (the “State”), or any political subdivision thereof is not pledged to the payment of the Bonds.

Although reasonable efforts have been made to include up-to-date information in this Appendix A, some of the information is not current due to delays in reporting of information by various sources. It should not be assumed that the trends indicated by the following data would continue beyond the specific periods reflected herein.

Introduction

The City. The City, incorporated on April 3, 1906, is located in Fresno County (the “County”) and the western San Joaquin Valley, in central California. The City is located 52 miles (84 km) southwest of Fresno and sits at an elevation of 673 feet (205 m). The City currently occupies a land area of 6.61 square miles and serves a population of approximately 17,200. The City is the third largest city in the County (the “County”) in terms of population. The City serves as a gateway to Sequoia National Forest, Giant Sequoia National Monument and Kings Canyon National Park.

The City’s main industries are agriculture, oil and incarceration. The City is home to the Coalinga Oil Field, operated by Chevron and Aera Energy; the Gujarral Hills Oil Field; Pleasant Valley State Prison; and Coalinga State Hospital. The City is also home to Harris Ranch, a major local cattle ranch that features a hotel, several restaurants, and a gift shop for travelers.

The County. The county seat of the County is the city of Fresno, the fifth-largest city in California. The County covers an area of over 6,011 square miles. The County serves as a financial, trade, commercial and educational center for central California. The County is one of eight counties in California’s central valley that account for one-half of California’s agricultural production. In addition to an extensive highway and road system, several motor freight carriers and a railway network, the County is also home to Fresno Yosemite International Airport which provides both passenger and cargo services.

The County remained one of the leading agricultural counties in the State and nation. The number one crop in value was Almonds followed by Grapes. Fruit and nut crops provide approximately half of the gross agricultural production value followed by Livestock. Major watercourses in the County are the San Joaquin, Kings River, Delta-Mendota Canal, Big Creek, Friant Kern Canal, Helm Canal and Madera Canal. It is bordered on the west by the Coast Range and on the east by the Sierra Nevada.

Population

The table below summarizes population of the City, the County, and the State of California for the last five years.

CITY OF COALINGA, FRESNO COUNTY, and CALIFORNIA Population

<u>Year</u>	<u>City of Coalinga</u>	<u>Fresno County</u>	<u>State of California</u>
2016	16,541	984,202	39,131,307
2017	16,793	993,773	39,398,702
2018	16,516	1,004,260	39,586,646
2019	16,944	1,015,195	39,695,376
2020	17,199	1,023,358	39,782,870

Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2015-16 through 2019-20, with 2010 Census Benchmark.

Employment

The following table summarizes historical employment and unemployment for the County, the State of California and the United States for the years 2015 through 2019:

FRESNO COUNTY, CALIFORNIA, and UNITED STATES Civilian Labor Force, Employment, and Unemployment (Annual Averages)

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate ⁽¹⁾
2015	Fresno County	444,200	398,900	45,300	10.2%
	California	18,981,800	17,798,600	1,183,200	6.2
	United States	157,130,000	148,834,000	8,296,000	5.3
2016	Fresno County	446,200	404,100	42,100	9.4
	California	19,102,700	18,065,000	1,037,700	5.4
	United States	159,187,000	151,436,000	7,751,000	4.9
2017	Fresno County	449,700	411,600	38,100	8.5
	California	19,312,000	18,393,100	918,900	4.8
	United States	160,320,000	153,337,000	6,982,000	4.4
2018	Fresno County	448,400	414,900	33,400	7.5
	California	19,398,200	18,582,800	815,400	4.2
	United States	162,075,000	155,761,000	6,314,000	3.9
2019 ⁽²⁾	Fresno County	450,800	418,100	32,700	7.2
	California	19,411,600	18,627,400	784,200	4.0
	United States	163,539,000	157,538,000	6,001,000	3.7

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2010-19, and US Department of Labor.

(1) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures available in this table.

(2) Latest available full-year data.

Major Industries in the County

The table below sets forth the ten largest industries by employment in the County in 2019.

FRESNO COUNTY Top 10 Industries as of June 30, 2019

Employer	Employees	% of Total County Employment
Fresno Unified School District	14,328	3.15%
Community Medical Centers	8,500	1.88
Fresno County	8,341	1.84
Clovis Unified School District	8,313	1.84
California State University Fresno	5,766	1.27
State Center Community College District	5,192	1.15
City of Fresno	4,556	1.01
Children's Hospital of Central CA	4,140	.92
Saint Agnes Medical	2,696	.60
Kaiser Permanente Medical	2,300	.51
Total Top 10	64,042	14.16

Source: Fresno County 2018-19 CAFR.

Construction Activity

The following tables reflect the five-year history of building permit valuation for the City and the County:

CITY OF COALINGA Building Permits and Valuation (Dollars in Thousands)

	2015	2016	2017	2018	2019 ⁽¹⁾
Permit Valuation:					
New Single-family	\$ 706	\$ 105	\$ 8,007	\$ 9,696	\$ 17,159
New Multi-family	3,122	-	-	-	-
Res. Alterations/Additions	144	301	218	78	1,899
Total Residential	3,972	406	8,225	9,775	19,059
Total Nonresidential	507	5,224	6,084	19,749	2,830
Total All Building	<u>4,480</u>	<u>5,631</u>	<u>14,310</u>	<u>29,524</u>	<u>21,890</u>
New Dwelling Units:					
Single Family	3	1	41	42	70
Multiple Family	41	-	-	-	-
Total	<u>44</u>	<u>1</u>	<u>41</u>	<u>42</u>	<u>70</u>

FRESNO COUNTY Building Permits and Valuation (Dollars in Thousands)

	2015	2016	2017	2018	2019 ⁽¹⁾
Permit Valuation:					
New Single-family	\$ 580,986	\$ 689,016	\$ 512,951	\$ 703,307	\$ 770,423
New Multi-family	34,183	52,363	131,175	67,589	87,818
Res. Alterations/Additions	31,800	30,648	29,478	47,115	41,033
Total Residential	646,970	772,028	673,605	818,012	899,275
Total Nonresidential	428,291	409,794	353,349	497,051	499,336
Total All Building	<u>1,075,261</u>	<u>1,181,823</u>	<u>1,026,954</u>	<u>1,315,064</u>	<u>1,398,612</u>
New Dwelling Units:					
Single Family	2,153	2,559	1,886	2,560	2,732
Multiple Family	343	339	1,135	290	689
Total	<u>2,496</u>	<u>2,898</u>	<u>3,021</u>	<u>2,850</u>	<u>3,421</u>

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Columns may not sum to totals due to independent rounding.

(1) Latest available full year data.

Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State of California and the nation for the past five years.

CITY OF COALINGA, FRESNO COUNTY, STATE OF CALIFORNIA AND UNITED STATES Median Household Effective Buying Income

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
City of Coalinga	\$ 45,217	\$ 48,622	\$ 47,528	\$ 50,815	\$ 53,279
Fresno County	41,237	44,641	46,028	48,980	48,681
California	55,681	59,646	62,637	65,870	67,956
United States	48,043	50,735	52,841	55,303	56,790

Source: Nielsen, Inc.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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APPENDIX C

CITY INVESTMENT POLICY

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

[TO COME]

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FORMS OF FINAL OPINIONS OF BOND COUNSEL

OPINION: \$_____ * Coalinga Public Financing Authority Revenue Bonds, Series 2021A
(Water and Wastewater Projects) (Federally Taxable)

Appendix E
Page 1

2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

5. The Water Installment Sale Agreement and the Wastewater Installment Sale Agreement have been duly approved by the Authority and constitute legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

6. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement and to perform the agreements on its part contained therein.

7. The Water Installment Sale Agreement and the Wastewater Installment Sale Agreement have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding obligations of the City enforceable against the City in accordance with their terms.

8. The Water Installment Sale Agreement establishes a valid first and exclusive lien on and pledge of the Water System Net Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Water Installment Sale Agreement, in accordance with the terms of the Water Installment Sale Agreement.

9. The Wastewater Installment Sale Agreement establishes a valid first and exclusive lien on and pledge of the Wastewater System Net Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Wastewater Installment Sale Agreement, in accordance with the terms of the Wastewater Installment Sale Agreement.

10. Interest on the Bonds is includible in gross income for federal income tax purposes.

11. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture, the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

With respect to the opinions expressed herein, the enforceability of the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement is subject to the limitations on the imposition of certain fees and charges by the City related to its municipal water and Wastewater systems under Articles XIII C and XIII D of the California Constitution. In addition, the rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Authority, the City and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts

that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

SERIES B BONDS

[Closing Date]

Board of Directors of the
Coalinga Public Financing Authority
155 West Durian
Coalinga, California 93210

OPINION: \$ _____ * Coalinga Public Financing Authority Revenue Bonds, Series 2021B
 (Water Project)

Members of the Board of Directors:

We have acted as bond counsel in connection with the delivery by the Coalinga Public Financing Authority (the "Authority") of \$ _____ * aggregate principal amount of the bonds of the Authority designated the "Coalinga Public Financing Authority Revenue Bonds, Series 2021B (Water Project)" (the "Bonds"), pursuant to the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law"), and pursuant to an indenture of trust, dated as of March 1, 2021 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee, and a resolution of the governing body of the Authority adopted on February 4, 2021. The Bonds are secured by Revenues as defined in the Indenture, including installment payments (the "Water Installment Payments") made by the City of Coalinga (the "City") under an installment sale agreement, dated as of March 1, 2021 (the "Water Installment Sale Agreement"), by and between the Authority, as seller, and the City, as purchaser. We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the City contained in the Indenture and the Water Installment Sale Agreement and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The Authority is a joint exercise of powers entity and public entity duly organized and existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.
2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.
3. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.
4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.
5. The Water Installment Sale Agreement has been duly approved by the Authority and constitutes the legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

* Preliminary, subject to change.

6. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Water Installment Sale Agreement and to perform the agreements on its part contained therein.

7. The Water Installment Sale Agreement establishes a valid first and exclusive lien on and pledge of the Water System Net Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Water Installment Sale Agreement, in accordance with the terms of the Water Installment Sale Agreement.

8. Subject to the Authority's and the City's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but we express no opinion as to whether interest on the Bonds is taken into account in computing adjusted current earnings which is used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

9. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Water Installment Sale Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

With respect to the opinions expressed herein, the enforceability of the Water Installment Sale Agreement is subject to the limitations on the imposition of certain fees and charges by the City related to its municipal water and Wastewater systems under Articles XIII C and XIII D of the California Constitution. In addition, the rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Authority, the City and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF COALINGA (the “City”) in connection with the issuance by the Coalinga Public Financing Authority (the “Authority”) of \$_____ * aggregate principal amount of Coalinga Public Financing Authority Revenue Bonds, Series 2021A (Water and Wastewater Projects) (Federally Taxable) (the “Series A Bonds”), and \$_____ * aggregate principal amount of Coalinga Public Financing Authority Revenue Bonds, Series 2021B (Water Project) (Tax-Exempt) (the “Series B Bonds” and, with the Series A Bonds, the “Bonds”). The Bonds are being issued pursuant to an indenture of trust, dated as of March 1, 2021 (the “Indenture”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The City covenants and agrees as follows:

Section 1. **Definitions.** In addition to the definitions set forth above and, in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the March 31 after the end of the City’s fiscal year.

“*Dissemination Agent*” shall mean, initially, IGService, or any successor Dissemination Agent designed in writing by the City and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“*Fiscal Year*” means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the City as its official fiscal year period under a Certificate of the City filed with the Trustee.

“*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 that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Oppenheimer & Co., Inc., the original underwriter 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 it may be amended from time to time.

“*Significant Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

Section 2. **Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2021, with the report for fiscal year 2019-20 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 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City 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 of this Disclosure Certificate; provided that the audited financial statements of the City 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 City's fiscal year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(b). The City 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 City hereunder. The filing of the Official Statement will satisfy the City's filing requirement for 2021.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City in a timely manner 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.

(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 City, file a report with the City 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 City's Annual Report shall contain or incorporate by reference the following:

(a) The City's 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 City'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 prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the indicated tables in the Official Statement, as follows:

- (i) Water System Water Purchases (Table 1);
- (ii) Water System Treated Water Supply and Consumption (Table 3);
- (iii) Water System Consumption by Customer Type (Table 4);
- (iv) Water System Metered Accounts by Customer Type (Table 5);
- (v) Water System Ten Largest Users (Table 6);
- (vi) Water System Historical Operating Results and Debt Service Coverage (Table 10);
- (vii) Wastewater Accounts by Customer Type (Table 12);
- (viii) Wastewater System Ten Largest Customers (Table 13); and

(ix) Wastewater System Historical Operating Results and Debt Service Coverage (Table 17).

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City 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 City 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 City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

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

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) The incurrence of a financial obligation of the City or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or other obligated person, any of which affect security holders, if material; or
- (xvi) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City or other obligated person, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Significant Event, the City shall, or shall cause the Dissemination Agent (if not the City) 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

Significant Event. Notwithstanding the foregoing, notice of Significant Events described in subsection (a)(viii) 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 City acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), (a)(xiv) and (a) (xv) of this Section 5 contain the qualifier “if material.” The City 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 the City determines the event’s occurrence is material for purposes of U.S. federal securities law. The City intends that the words used in paragraphs (xv) and (xvi) and the definition of “financial obligation” to have the meanings ascribed thereto in SEC Release No. 34-83885 (August 20, 2018).

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City 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 City has assumed jurisdiction over substantially all of the assets or business of the City, 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 City, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental City having supervision or jurisdiction over substantially all of the assets or business of the City.

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

Section 8. Dissemination Agent. The City 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City 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 Bond Indenture for amendments to the Bond 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 City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

The Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations hereunder.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Significant Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City 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 Significant Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Significant Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City 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 Bond Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) Section 27 of the Bond Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Bond Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they 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 Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

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

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: [Closing Date]

CITY OF COALINGA

By _____
City Manager

ACKNOWLEDGED:

IGSERVICE, as Dissemination Agent

By _____
Title _____

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Coalinga Public Financing Authority

Name of Obligor: City of Coalinga, California

Name of Issues: Coalinga Public Financing Authority Revenue Bonds, Series 2021A (Water and Wastewater Projects) (Federally Taxable)

Coalinga Public Financing Authority Revenue Bonds, Series 2021B (Water Project)

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issues as required by the Continuing Disclosure Certificate dated [Closing Date], furnished by the Obligor in connection with the Issues. The Obligor anticipates that the Annual Report will be filed by _____.

Dated: _____

IGSERVICE, as Dissemination Agent

By _____
Name _____
Title _____

cc: Trustee

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APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, redemption premium, if any, and interest with respect to the Bonds to The Depository Trust Company (“DTC”), New York, NY, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the Authority of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its 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 its Participants, as the case may be. The City, the Authority, the Trustee and the Underwriter understand that the current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and that the current “Procedures” of DTC to be followed in dealing with Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest 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 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.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized

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

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

Redemption notices shall be sent to DTC, if less than all of the Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

The foregoing information concerning DTC and DTC's book-entry system has been provided by DTC, and neither the Authority nor the Trustee takes any responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Authority nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply.

The City, the Authority and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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