

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER __, 2019
NEW ISSUE - FULL BOOK-ENTRY

S&P RATING: “___”
See “Rating”

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2019 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the 2019 Bonds is exempt from California personal income taxes. See “TAX MATTERS.”

\$ _____ *

Milpitas Municipal Financing Authority
2019 Wastewater Revenue Bonds

Dated: Date of Delivery

Due: November 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the “2019 Bonds”) are being issued by the Milpitas Municipal Financing Authority (the “Authority”) under a resolution adopted by the governing body of the Authority, the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Bond Law”), and an Indenture of Trust dated as of November 1, 2019 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee. See “THE 2019 BONDS – Authority for Issuance.”

Use of Proceeds. The 2019 Bonds are being issued to provide funds to (i) assist the City of Milpitas (the “City”) with financing certain improvements to the City’s wastewater system (as further defined herein, the “Wastewater System”), including costs billed to the City for the San José/Santa Clara Regional Wastewater Facility (the “Treatment Facility”), and (ii) pay the costs of issuing the 2019 Bonds. See “FINANCING PLAN.”

Security for the 2019 Bonds. The 2019 Bonds are special obligations of the Authority, payable from the “Revenues” pledged under the Indenture, which consist primarily of installment payments (the “Installment Payments”) payable by the City to the Authority under an Installment Sale Agreement, dated as of November 1, 2019 (the “Installment Sale Agreement”) pursuant to which the City is purchasing the Wastewater System improvements being financed. Repayment of the Installment Payments is secured by a pledge of the “Net Revenues” of the Wastewater System. Neither the Authority nor the City will fund a debt service reserve fund in connection with the 2019 Bonds. See “SECURITY FOR THE 2019 BONDS.”

Parity Debt. The pledge of the Net Revenues under the Installment Sale Agreement is on parity with the pledge of Net Revenues in favor of the holders of the City of Milpitas Wastewater Revenue Refunding Bonds, Series 2017 (the “2017 Bonds”), which were issued in the original principal amount of \$4,725,000 and are currently outstanding in the amount of \$4,245,000. In addition, additional series of bonds or other debt may be issued in the future that are payable from Net Revenues on a parity with the 2017 Bonds and the Installment Payments, subject to the conditions contained in the Installment Sale Agreement. See “SECURITY FOR THE 2019 BONDS – Parity Debt.”

Bond Terms; Book-Entry Only. The 2019 Bonds will bear interest at the rates shown on the inside cover, payable semiannually on May 1 and November 1 of each year, commencing on May 1, 2020, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The 2019 Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). Purchasers of the 2019 Bonds will not receive certificates representing their interests in the 2019 Bonds. Payments of the principal of, premium, if any, and interest on the 2019 Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2019 Bonds. See “THE 2019 BONDS – General Bond Terms.”

Redemption. The 2019 Bonds are subject to redemption prior to maturity. See “THE 2019 BONDS – Redemption.”

THE 2019 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY THE REVENUES, WHICH CONSIST PRIMARILY OF THE INSTALLMENT PAYMENTS. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS. THE 2019 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES AS DESCRIBED HEREIN.

MATURITY SCHEDULE
(see inside cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE 2019 BONDS. INVESTMENT IN THE BONDS INVOLVES RISKS THAT MAY NOT BE APPROPRIATE FOR SOME INVESTORS. SEE “BOND OWNERS’ RISKS.”

The 2019 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the City by Jones Hall, A Professional Law Corporation, as Disclosure Counsel, and by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Nixon Peabody LLP, Los Angeles, California. It is anticipated that the 2019 Bonds, in book-entry only form, will be available through the facilities of DTC on or about November __, 2019.

Bank of America Merrill Lynch

The date of this Official Statement is: _____, 2019.

* Preliminary; subject to change.

MATURITY SCHEDULE

\$_____ Serial Bonds
(Base CUSIP†: _____)

Maturity (November 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
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\$_____ % Term Bond Due November 1, 20____; Yield _____%; Price: _____%
CUSIP†: _____

† Copyright S&P Global Services, managed by Standard & Poor's Capital IQ. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriter takes any responsibility for the accuracy of such CUSIP® numbers.

MILPITAS MUNICIPAL FINANCING AUTHORITY
(Santa Clara County, California)

**GOVERNING BOARD OF THE AUTHORITY
AND CITY COUNCIL OF THE CITY**

Richard Tran, *Chair/Mayor*
Karina R. Dominguez, *Vice-Chair/Vice-Mayor*
Carmen Montano, *Boardmember/Councilmember*
Bob Nuñez, *Boardmember/Councilmember*
Anthony Phan, *Boardmember/Councilmember*

AUTHORITY/CITY OFFICIALS

Steve McHarris, *Interim Executive Director/Interim City Manager**
Walter C. Rossmann, *Treasurer/ Director of Finance*
Tony Ndah, *Public Works Director*
Christopher J. Diaz, *Authority General Counsel/City Attorney*
Mary Lavelle, CMC, *Secretary/City Clerk*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Municipal Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Trustee

U.S. Bank National Association
San Francisco, California

* Steve McHarris was appointed Interim City Manager in June 2019. He most recently served as Deputy City Manager.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the 2019 Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

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

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2019 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or the Wastewater System since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the 2019 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the 2019 Bonds.

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

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

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

Stabilization of and Changes to Offering Prices. The Underwriter may over allot or take other steps that stabilize or maintain the market price of the 2019 Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the 2019 Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the 2019 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

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

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

Internet Site. The City maintains an internet site; however, none of the information contained on that internet site is incorporated by reference in this Official Statement.

[REGIONAL MAP]

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OFFICIAL STATEMENT

\$ _____ *

**Milpitas Municipal Financing Authority
2019 Wastewater Revenue Bonds**

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. Capitalized terms used but not defined in this Official Statement have the meanings given in the Indenture (as defined below). See “APPENDIX A – Summary of Certain Provisions of the Principal Legal Documents.”

The Authority and the City. The Milpitas Municipal Financing Authority (the “**Authority**”) is a joint exercise of powers authority established by the City of Milpitas (the “**City**”) and the City of Milpitas Housing Authority pursuant to a Joint Exercise of Powers Agreement, dated as of March 1, 2016 for the purpose, among others, of having the Authority issue its bonds to finance the acquisition, construction and improvement of certain public capital improvements in the City. The City is a general law city located in the County of Santa Clara (the “**County**”). For background, demographic and economic information regarding the City and the County, see APPENDIX D.

Authority for Issuance. The bonds captioned above (the “**2019 Bonds**”) are being issued by the Authority under a resolution adopted by the governing body of the Authority, the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “**Bond Law**”), and an Indenture of Trust dated as of November 1, 2019 (the “**Indenture**”), by and between the Authority and U.S. Bank National Association, as trustee. See “THE 2019 BONDS – Authority for Issuance.”

Purpose of the 2019 Bonds. The 2019 Bonds are being issued to provide funds to (i) assist the City with financing certain improvements to the City’s wastewater system (as further defined herein, the “**Wastewater System**”), including costs billed to the City related to the San José/Santa Clara Regional Wastewater Facility (the “**Treatment Facility**”), and (ii) pay the costs of issuing the 2019 Bonds. See “FINANCING PLAN.”

Security for the 2019 Bonds. The 2019 Bonds are special obligations of the Authority, payable from the “Revenues” pledged under the Indenture, which consist primarily of installment payments (the “**Installment Payments**”) payable by the City to the Authority under an Installment Sale Agreement, dated as of November 1, 2019 (the “**Installment Sale Agreement**”) pursuant to which the City is purchasing the Wastewater System improvements being financed. Repayment of the Installment Payments is secured by a pledge of the “Net Revenues” of the Wastewater System. “**Net Revenues**” are generally defined as the “Gross Revenues” received from the Wastewater System, less the amount of “Maintenance and Operation Costs” of the Wastewater System (as those terms are defined in the Indenture). See “SECURITY FOR THE 2019 BONDS.”

Parity Debt. The pledge of the Net Revenues under the Installment Sale Agreement is on parity with the pledge of Net Revenues in favor of the holders of the City of Milpitas Wastewater Revenue Refunding Bonds, Series 2017 (the “**2017 Bonds**”), which were issued in the original principal amount of \$4,725,000 and are currently outstanding in the amount of \$4,245,000. In addition, additional series of bonds or other debt may be issued in the future that are payable from Net Revenues on a parity with the 2017 Bonds and the Installment Payments, subject to the conditions contained in the Installment Sale Agreement. See “SECURITY FOR THE 2019 BONDS – Parity Debt.”

Rate Covenants. Under the Installment Sale Agreement, the City is obligated to fix, prescribe, revise, and collect Charges for the Wastewater System during each Fiscal Year that are sufficient to yield Net Revenues of at least 115% of Debt Service on the Bonds and Parity Debt in that Fiscal Year (as such capitalized terms are defined in the Indenture).

Under the Installment Sale Agreement, the City must also fix, prescribe, revise, and collect charges for the Wastewater System during each Fiscal Year to pay all Maintenance and Operation Costs of the Wastewater System estimated by the City to become due and payable in such Fiscal Year, the Debt Service on the Bonds, all other payments required for compliance with the Indenture and the Parity Debt Instruments, and all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues of the Wastewater System (as such capitalized terms are defined in the Indenture). Debt Service includes amounts due with respect to the 2019 Bonds and the 2017 Bonds, plus any Parity Debt that may be issued or incurred in the future. See APPENDIX A.

See “SECURITY FOR THE 2019 BONDS – Rate Covenants.”

No Reserve Fund. The City will not fund a debt service reserve fund for the 2019 Bonds.

Risks of Investment. The 2019 Bonds are repayable from the Revenues, which are primarily secured by the Installment Payments payable by the City from the Net Revenues of the Wastewater System. For a discussion of some of the risks associated with the purchase of the 2019 Bonds, see “BOND OWNERS’ RISKS.”

THE 2019 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY THE REVENUES, WHICH CONSIST PRIMARILY OF THE INSTALLMENT PAYMENTS. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS. THE 2019 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES AS DESCRIBED HEREIN.

FINANCING PLAN

The 2019 Bonds are being issued to provide funds to (i) assist the City with financing certain improvements to the Wastewater System (as described herein, the “**Project**”), including costs billed to the City for the Treatment Facility and (ii) pay the costs of issuing the 2019 Bonds.

The Project

The Project is expected to consist primarily of capital improvements being undertaken at the Treatment Facility, and for which the City expects to be billed approximately \$35,000,000. This amount is expected to be billed to the City by the City of San José over the next two to three years pursuant to the Master Agreement for Wastewater Treatment Between City of San José, City of Santa Clara and City of Milpitas, dated as of March 1, 1983 (the “**Master Agreement**”). Although the City has commenced litigation against the cities of San José and Santa Clara, as the owners of the Treatment Facility, related to amounts expected to be billed for the Treatment Facility improvements, the City currently intends to pay such amounts as they become due. For additional information regarding the Master Agreement and the Treatment Facility, including the ongoing capital improvement program related to the Treatment Facility and the related litigation, see “THE WASTEWATER SYSTEM – San Jose/Santa Clara Regional Wastewater Facility.”

As provided in the Indenture and the Installment Sale Agreement, amounts not used for the above-described projects may be expended for other improvements to the Wastewater System approved by the City Council.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the 2019 Bonds are as follows:

Sources:

Principal Amount of 2019 Bonds	\$
Plus/Less [Net] Original Issue Premium/Discount	
Total Sources	\$

Uses:

Deposit to Project Fund	
Costs of Issuance ⁽¹⁾	
Total Uses	\$

(1) Costs of Issuance include legal fees, Municipal Advisor’s fee, Underwriter’s discount, printing costs, rating agency fees, and other expenses related to the issuance of the 2019 Bonds.

THE 2019 BONDS

This section provides summaries of the 2019 Bonds and certain provisions of the Indenture. See APPENDIX A for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Authority for Issuance

The 2019 Bonds are being issued by the Authority under a resolution adopted by the governing body of the Authority on _____, 2019, the Bond Law, and the Indenture. The City, pursuant to a resolution adopted by the City Council of the City on _____, 2019, has also approved of the issuance of the Bonds and the distribution of the Official Statement.

General Bond Terms

Bond Terms. The 2019 Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000, so long as no 2019 Bond has more than one maturity date. The 2019 Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

Payments. Interest on the 2019 Bonds will be payable on May 1 and November 1 of each year to maturity (each an “**Interest Payment Date**”), commencing May 1, 2020.

Interest on the 2019 Bonds will be payable on each Interest Payment Date to the person whose name appears on the Bond Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail to the Owner or, at the option of any Owner of at least \$1,000,000 aggregate principal amount of the 2019 Bonds with respect to which written instructions have been filed with the Trustee prior to the applicable Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books.

If there exists a default in payment of interest due on such Interest Payment Date, such interest will be payable on a payment date established by the Trustee to the persons in whose names the 2019 Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered Owners of the 2019 Bonds not less than 15 days preceding such special record date.

Principal of and premium (if any) on any 2019 Bond will be paid upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee. Both the principal of and interest and premium (if any) on the 2019 Bonds will be payable in lawful money of the United States of America.

However, as long as Cede & Co. is the registered owner of the 2019 Bonds, as described below, payments of the principal of, premium, if any, and interest on the 2019 Bonds will be made directly to DTC, or its nominee, Cede & Co.

Calculation of Interest. The 2019 Bonds will be dated the Closing Date and bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date next preceding the date of authentication thereof, unless said date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and

unless said date of authentication is prior to April 15, 2020, in which event such interest is payable from the Closing Date; provided, however, that if, as of the date of authentication of any 2019 Bond, interest thereon is in default, such 2019 Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

Record Date. The Indenture defines the “**Record Date**” for the 2019 Bonds as the 15th calendar day of the month preceding an Interest Payment Date.

Book-Entry Only System. The 2019 Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company (“**DTC**”), New York, New York, as the initial securities depository for the 2019 Bonds. Ownership interests in the 2019 Bonds may be purchased in book-entry form only. Purchasers of the 2019 Bonds will not receive physical bonds representing their ownership interests in the 2019 Bonds purchased.

Principal and interest payments with respect to the 2019 Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the 2019 Bonds. See “APPENDIX F – DTC and the Book-Entry Only System.”

So long as the 2019 Bonds are registered in the name of Cede & Co., as nominee of DTC, references in this Official Statement to the “owners” mean Cede & Co., and not the purchasers or Beneficial Owners of the 2019 Bonds. See “APPENDIX F – DTC and the Book-Entry Only System.”

Redemption*

Optional Redemption. The 2019 Bonds maturing on or before November 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates. The 2019 Bonds maturing on or after November 1, 20__, are subject to redemption in whole, or in part at the Written Request of the Authority among maturities on such basis as the Authority may designate and by lot within a maturity, at the option of the Authority, on any date on or after November 1, 20__, from any available source of funds, at a redemption price equal to the principal amount of the 2019 Bonds to be redeemed, plus accrued interest to the date of redemption, without premium

Special Mandatory Redemption from Insurance and Sale Proceeds. The 2019 Bonds are subject to mandatory redemption, on any date, in whole, or in part on a pro rata basis among maturities, from the net proceeds of insurance, sale or condemnation credited towards the prepayment of the Installment Payments by the City under the Installment Sale Agreement, at a redemption price equal to the principal amount represented thereby to be prepaid, without premium, together with accrued interest represented thereby to the redemption date.

Mandatory Sinking Fund Redemption. The 2019 Bonds maturing on November 1, 20__ and November 1, 20__ (the “**2019 Term Bonds**”) are also be subject to redemption, by lot, on November 1 in each of the years as set forth in the following tables, from deposits made for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof may be purchased, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, that if some but not all of the 2019 Term Bonds have been redeemed pursuant to paragraphs described above, the total

* Preliminary; subject to change.

amount of all future payments with respect to such 2019 Term Bonds shall be reduced by the aggregate principal amount of such 2019 Term Bonds so redeemed, to be allocated among such payments in integral multiples of \$5,000 as determined by the Authority (written notice of which determination shall be given by the Authority to the Trustee).

2019 Term Bonds Maturing November 1, 20__

Sinking Fund
Redemption Date
(November 1)

Principal
Amount To Be
Redeemed

2019 Term Bonds Maturing November 1, 20__

Sinking Fund
Redemption Date
(November 1)

Principal
Amount To Be
Redeemed

In lieu of mandatory sinking fund redemption of the 2019 Term Bonds, amounts on deposit in the Bond Fund (to the extent not required to be deposited by the Trustee in the Interest Account or the Principal Account pursuant to the Indenture during the current Bond Year) may also be used and withdrawn by the Authority, upon the Written Request of the Authority delivered to the Trustee, at any time for the purchase of such 2019 Term Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the Authority may in its discretion determine. The par amount of any of such Term Bonds so purchased by the Authority in any twelve-month period ending on April 1 in any year shall be credited towards and shall reduce the par amount of such Term Bonds required to be redeemed pursuant to this provision on the next succeeding November 1.

Notice of Redemption. The Trustee shall mail notice of redemption of the 2019 Bonds by first class mail, postage prepaid, not less than 20 nor more than 60 days before any redemption date, to the respective Owners of any 2019 Bonds designated for redemption at their addresses appearing on the Bond Registration Books and to one or more 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 2019 Bonds (or all 2019 Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all 2019 Bonds within a maturity are called for redemption) 2019 Bond numbers of the 2019 Bonds to be redeemed and the maturity or maturities of the 2019 Bonds to be redeemed, and in the case of 2019 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 2019 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.

Each notice relating to a redemption pursuant to the optional redemption or special mandatory redemption provisions described above shall further state that such redemption may be rescinded by the Authority on or prior to the date set for redemption. Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of 2019 Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

Notwithstanding the foregoing, while the 2019 Bonds are subject to DTC's book-entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the letter of representations executed by the City and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the 2019 Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any 2019 Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the Indenture.

Rescission of Redemption and Cancellation of Redemption Notice. The Authority shall have the right to rescind any redemption pursuant to the optional redemption or special mandatory redemption provisions described above by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the 2019 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Trustee shall mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

Selection of 2019 Bonds for Redemption. With respect to the 2019 Bonds, whenever less than all of the 2019 Bonds of a maturity are to be selected for redemption, the Trustee shall determine, by lot, the numbers of the 2019 Bonds of such maturity to be redeemed, and shall notify the City thereof.

Partial Redemption of 2019 Bonds. Whenever provision is made in the Indenture for the redemption of less than all of the 2019 Bonds of a single maturity of the same issue, the Trustee shall select the 2019 Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee shall treat each 2019 Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate 2019 Bond.

Registration, Transfer and Exchange

Bond Registration Books. The Trustee will keep or cause to be kept at its trust office sufficient Bond Registration Books for the registration and transfer of the Bonds, which will at all times during regular business hours, and upon reasonable notice, be open to inspection by the Authority; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as provided in the Indenture.

Transfer. Any 2019 Bond may, in accordance with its terms, be transferred, upon the Bond Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such 2019 Bond to the Trustee at its Principal Corporate Trust Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any 2019 Bonds under the Indenture. Whenever any 2019 Bond or 2019 Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver to the transferee a new 2019 Bond or 2019 Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority shall pay the cost of printing 2019 Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of 2019 Bonds.

Exchange. The 2019 Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of 2019 Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any 2019 Bonds. The Authority shall pay the cost of printing 2019 Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of 2019 Bonds.

Limitations. The Trustee may refuse to transfer or exchange, under the provisions of the Indenture, any 2019 Bonds selected by the Trustee for redemption under the Indenture, or any 2019 Bonds during the period established by the Trustee for the selection of 2019 Bonds for redemption.

DEBT SERVICE SCHEDULE

Annual debt service on the 2019 Bonds is presented below.

Period Ending November 1	Principal	Interest	Annual Debt Service
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
Total:			

SECURITY FOR THE 2019 BONDS

This section provides summaries of the security for the 2019 Bonds, and certain provisions of the Indenture and the Installment Sale Agreement. Unless the context otherwise requires, "Bonds" refers to the 2019 Bonds and any future Parity Debt outstanding under the Indenture. See APPENDIX A for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

General; Limited Obligation

The 2019 Bonds are special limited obligations of the Authority and will be payable from and secured by a charge and lien on the Revenues, consisting primarily of the Installment Payments to be made by the City under the Installment Sale Agreement, and all amounts held in any fund or account established and held by the Trustee under the Indenture (other than the Project Fund and the Cost of Issuance Fund). Neither the faith and credit nor the taxing power of the Authority, the City, the State of California or any political subdivision thereof is pledged to the payment of the Installment Payments or the principal or redemption price of or interest on the 2019 Bonds. The Authority has no taxing power. Neither the payment of the principal of or interest on the 2019 Bonds nor the obligation of the City to make Installment Payments under the Installment Sale Agreement constitutes a debt of the City, the Authority, the State of California or any political subdivision thereof in contravention of the Constitution or the laws of the State of California.

Installment Payments; Pledge of Net Revenues

All of the Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments. Such pledge, charge and assignment constitutes a lien on the Net Revenues and such other moneys for the payment of the Installment Payments in accordance with the terms of the Installment Sale Agreement, which lien is on a parity with the pledge and lien which secures the 2017 Bonds and any future Parity Debt. For a description of existing and potential future Parity Debt see "– Parity Debt" below. As used in the Installment Sale Agreement and in the Indenture, the following terms have the following respective meanings:

Net Revenues. The Indenture defines "**Net Revenues**" with respect to the Wastewater System as, for any period of computation, the amount of the Gross Revenues during such period, less the amount of Maintenance and Operation Costs of the Wastewater System during such period.

Gross Revenues. The Indenture defines "**Gross Revenues**" as all Charges (excluding surcharges, if any) received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to,

- (a) any amounts transferred to the Wastewater Fund from a Rate Stabilization Fund, and
- (b) investment earnings on amounts held in the Wastewater Fund or in any other fund established with respect to the Wastewater System.

Gross Revenues do not include (i) refundable deposits made to establish credit, (ii) the proceeds of any ad valorem property taxes, (iii) the proceeds of any special assessments or

special taxes levied upon real property within any improvement district served by the City for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Wastewater System and (iv) connection charges.

Maintenance and Operation Costs. The Indenture defines “**Maintenance and Operation Costs**” as the reasonable and necessary costs and expenses paid by the City to maintain and operate 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,
- (c) payments under any contracts, notes or leases executed in connection with the City’s acquisition of the Wastewater System or any part thereof, and
- (d) payment of maintenance and operation expenses for wastewater treatment and disposal.

The term Maintenance and Operation Costs does not include (i) debt service payable on obligations incurred by the City, or for which the City is responsible in whole or in part, including but not limited to the Installment Payments, (ii) capital costs in excess of those, if any, required in (b) above, including payment of capital costs by the City in connection with wastewater treatment and disposal, (iii) depreciation, replacement and obsolescence charges or reserves therefor, (iv) amortization of intangibles or other bookkeeping entries of a similar nature, and (v) any overhead costs of the City to be repaid through annual transfers to the City’s General Fund.

Wastewater System. The Indenture defines “**Wastewater System**” as the entire system of the City for the collection and conveyance of wastewater within the service area of the City, including but not limited to all facilities, properties, lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City, including without limitation wastewater treatment and disposal facilities.

Receipt and Use of Gross Revenues under Installment Sale Agreement

Flow of Funds. The City has previously established the Wastewater Fund, which the City will continue to hold and maintain for the purposes and uses set forth in the Installment Sale Agreement. The City shall deposit all of the Gross Revenues in the Wastewater Fund immediately upon receipt. The City shall apply amounts in the Wastewater Fund as set forth in the Installment Sale Agreement and any resolution, trust indenture or installment sale agreement adopted, entered into or executed and delivered by the City in connection with any Parity Debt (collectively, “**Parity Debt Instruments**”), including the indenture pursuant to which the 2017 Bonds were issued. Amounts on deposit in the Wastewater Fund shall be applied by the City to pay when due the following amounts in the following order of priority:

(i) all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs) as such Maintenance and Operation Costs become due and payable;

(ii) to the Trustee (or other recipient set forth in a Parity Debt Instrument) the amount needed to pay the Installment Payments and principal of, and interest on, any Parity Debt;

(iii) to the Trustee (or other recipient set forth in a Parity Debt Instrument) the amount of any deficiency in any reserve fund established for any Bonds or Parity Debt, the notice of which deficiency has been given to the City in accordance with the Indenture and the related Parity Debt Instruments, on a pro rata basis; and

(iv) as long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above, any moneys remaining in the Wastewater Fund may at any time be treated as surplus and applied for any lawful purpose.

No Preference or Priority. Payment of the Installment Payments and the principal of and interest on any Parity Debt shall be made without preference or priority among the Installment Payments and such Parity Debt. If the amount of Net Revenues on deposit in the Wastewater Fund is at any time insufficient to enable the City to pay when due the Installment Payments and the principal of and interest on any Parity Debt, such payments shall be made on a pro rata basis.

Budget and Appropriation of Installment Payments. During the Term of the Installment Sale Agreement, the City shall adopt all necessary budgets and make all necessary appropriations of the Installment Payments from the Net Revenues. If any Installment Payment requires the adoption by the City of any supplemental budget or appropriation, the City shall promptly adopt the same. The foregoing covenants on the part of the City constitute duties imposed by law and it is the duty of each and every public official of the City to take such actions and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this paragraph.

Receipt and Use of Revenues under Indenture

Assignment to Trustee. Under the Indenture, the Authority hereby irrevocably transfers, assigns and sets over to the Trustee, without recourse to the Authority, all of its rights in the Installment Sale Agreement (excepting only the Authority's rights relating to indemnification and related matters), including but not limited to all of the Authority's rights to receive and collect all of the Installment Payments. The Trustee is entitled to collect and receive all of the Installment Payments, and any Installment Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee is also entitled to and shall, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Installment Sale Agreement.

Deposit and Use of Revenues in Bond Fund. All Revenues (consisting, primarily, of the Installment Payments) shall be promptly deposited by the Trustee upon receipt in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust;

except that all moneys received by the Trustee and required under the Indenture or under the Installment Sale Agreement to be deposited in the Redemption Fund shall be promptly deposited in such fund. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the Bonds or provision therefore under the Indenture, and (ii) any applicable fees and expenses of the Trustee, shall be withdrawn by the Trustee and remitted to the City.

On or before each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority:

Interest Account. The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Principal Account. The Trustee shall 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 each November 1, including the aggregate principal amount of the Term Bonds (if any) which are subject to mandatory sinking fund redemption on such November 1 pursuant to the Indenture. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds on their respective maturity dates, including the aggregate principal amount of the Term Bonds (if any) which are subject to mandatory sinking fund redemption on such November 1 pursuant to the Indenture.

Deposit and Use of Revenues in Redemption Fund. The Trustee shall establish and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the Revenues received representing optional prepayments of the Installment Payments, in accordance with a Written Request of the Authority. Amounts on deposit in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and premium (if any) of the Bonds to be redeemed under the optional redemption or special mandatory redemption provisions of the Indenture; *provided, however*, that at any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed under a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

No Reserve Fund

Neither the Authority nor the City will fund a debt service reserve fund for the 2019 Bonds.

Rate Stabilization Fund

Under the Installment Sale Agreement, the City has the right at any time to establish a rate stabilization fund (the “**Rate Stabilization Fund**”) to be held by it and administered in

accordance with the Installment Sale Agreement, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Wastewater System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien, which secures the Installment Payments and any Parity Debt, as the City may determine.

The City may, but is not required to, withdraw from any amounts on deposit in a Rate Stabilization Fund and deposit such amounts in the Wastewater Fund in any Fiscal Year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from a Rate Stabilization Fund to the Wastewater Fund will constitute Gross Revenues for such Fiscal Year (except to the extent of amounts transferred into the Rate Stabilization Fund from Gross Revenues received by the City in such Fiscal Year), and will be applied for the purposes of the Wastewater Fund. Amounts on deposit in a Rate Stabilization Fund will not be pledged to or otherwise secure the Installment Payments or any Parity Debt. All interest or other earnings on deposits in a Rate Stabilization Fund will be withdrawn therefrom at least annually and accounted for as Gross Revenues in the Wastewater Fund. The City has the right at any time to withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the City.

The City does not currently have any amounts set aside in the Rate Stabilization Fund, but does maintain other reserves related to the Wastewater System. See "THE WASTEWATER SYSTEM – Funds and Reserves."

Rate Covenants under Indenture

Sum Sufficient. Under the Installment Sale Agreement, the City will fix, prescribe, revise and collect Charges for the Wastewater System during each Fiscal Year that are at least sufficient, after making allowances for contingencies and error in the estimates, to produce Gross Revenues which will be sufficient to pay the following amounts:

- (a) all Maintenance and Operation Costs of the Wastewater System estimated by the City to become due and payable in such Fiscal Year;
- (b) the Installment Payments and Debt Service on any Parity Debt;
- (c) all other payments required for compliance with the Installment Sale Agreement, the Indenture and the Parity Debt Instruments; and
- (d) all payments required to meet any other obligations of the City that are charges, liens, encumbrances upon or payable from the Gross Revenues of the Wastewater System or the Net Revenues of the Wastewater System.

Debt Service Coverage. In addition, under the Installment Sale Agreement, the City will fix, prescribe, revise and collect Charges for the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 115% of the Installment Payments and Debt Service on Parity Debt in such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that any transfers into the Wastewater Fund in such Fiscal Year from the Rate Stabilization Fund are included in the calculation of Net Revenues (except to the extent of amounts transferred into the Rate Stabilization Fund from Gross Revenues received by the City in such Fiscal Year).

Parity Debt

In addition to the Installment Payments, the City may, by a Parity Debt Instrument, issue or incur other loans, advances or indebtedness payable from Net Revenues to be derived from the Wastewater System, to provide financing for the Wastewater System, in such principal amount as may be determined by the City. The City may issue or incur any such Parity Debt subject to the following specific conditions that are made conditions precedent to the issuance and delivery of such Parity Debt:

(a) The City will be in compliance with all covenants set forth in the Installment Sale Agreement and in the Indenture.

(b) The Net Revenues of the Wastewater System, calculated on generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the Parity Debt Instrument pursuant to which such Parity Debt are issued, as shown by the books of the City, plus, at the option of the City, any or all of the items hereinafter in this paragraph designated (i) and (ii), must at least equal 115% of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all bonds and other obligations to be outstanding immediately subsequent to the issuance of such Parity Debt which have a lien on Net Revenues of the Wastewater System. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring Parity Debt under the Indenture are the following:

(i) An allowance for Net Revenues from any additions to or improvements or extensions of the Wastewater System to be made with the proceeds of such Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such 12-month period, were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown in the written report of an Independent Consultant engaged by the City; and

(ii) An allowance for revenues projected to arise from any increase in the Charges which has been approved by the City Council prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in Charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown in the written report of an Independent Consultant engaged by the City. For the avoidance of doubt, a Charge shall be considered to have been approved by the City Council and may be considered in the calculation of the allowance described in the previous sentence if the Charge is part of a multi-year rate increase that has been approved by the City Council, even if the specific Charge will not take effect until a subsequent Fiscal Year.

(c) The Parity Debt Instrument providing for the issuance of such Parity Debt under the Installment Sale Agreement shall:

(i) Provide that the proceeds of such Parity Debt will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Wastewater System, or otherwise for facilities, improvements or property which the City determines are of benefit to the Wastewater System, or for the purpose of refunding any Parity Debt in whole or in part, including all costs (including costs of issuing such Parity Debt and including capitalized interest on such Parity Debt during any period which the City deems necessary or advisable) relating thereto;

(ii) Specify the date on which interest on such Parity Debt will be payable; and

(iii) Specify the date on which principal on such Parity Debt will be payable.

(d) Notwithstanding the foregoing, Parity Debt proposed to be issued for the purpose of refunding any Parity Debt may be issued without compliance with subsection (b) and (c)(i), so long as such refunding results in lower Debt Service in each Fiscal Year after such refunding and the final maturity (or termination) date of the refunding Parity Debt is no later than the final maturity (or termination) date of the refunded Parity Debt.

As used above, “**Maximum Annual Debt Service**” means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year. The calculation of “**Debt Service**” is set forth in APPENDIX A.

No Senior Debt

The City covenants in the Installment Sale Agreement to not issue or incur any additional bonds or other obligations during the term thereof having any priority in payment of principal or interest out of the Net Revenues over the Installment Payments. However, this covenant does not limit or affect the ability of the City to issue, enter into or incur additional Parity Debt as described above, or obligations which are either unsecured or which are secured on a basis which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Installment Sale Agreement.

Casualty Insurance and Eminent Domain Proceeds

Covenant to Maintain Insurance. The City covenants that it will at all times maintain such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.

Insurance Proceeds. All amounts collected from insurance against accident to or destruction of any portion of the Wastewater System shall be used to repair or rebuild such damaged or destroyed portion of the Wastewater System, and to the extent not so applied, shall be applied to redeem Bonds or any Parity Debt in accordance with the Indenture and applicable Parity Debt Instruments.

Eminent Domain Proceeds. If all or any part of the Wastewater System is taken by eminent domain proceedings, the Net Proceeds realized by the City therefrom will be deposited by the City in a special fund in trust and applied by the City to the cost of acquiring or constructing

or financing Improvements to the Wastewater System, or to redeem Bonds or any Parity Debt in accordance with the, Indenture and applicable Parity Debt Instruments.

THE AUTHORITY AND THE CITY

The Authority

The Authority was created as of March 1, 2016, by the City and the City of Milpitas Housing Authority under a Joint Exercise of Powers Agreement, for the purpose, among others, of having the Authority issue its bonds to finance the acquisition, construction and improvement of certain public capital improvements in the City. The members of the City Council serve as the governing board of the Authority, and certain City staff serve as the officers of the Authority. The Joint Exercise of Powers Agreement was entered into under Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California. The Authority is a separate entity constituting a public instrumentality of the State of California.

The City

The City is a general law city located in the County of Santa Clara (the “**County**”). For background, demographic and economic information regarding the City and the County, see APPENDIX D.

City Pension Plans and OPEB

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

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

Miscellaneous Plan Description. All qualified permanent and probationary employees of the Wastewater System are eligible to participate in the City’s Miscellaneous Plan (the “**Miscellaneous Plan**”), agent multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Miscellaneous Plan are established by State statute and City’s resolutions.

Approximately 5.7% of the Miscellaneous Plan contributions made by the City to CalPERS for Fiscal Year 2019-20 are expected to be allocable to the Wastewater System, based on the methodology currently employed by the City.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time

employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Miscellaneous Plan provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan		
	Classic Tier I	Classic Tier II	PEPRA
Hire Date	Prior to Oct. 9, 2011	Oct. 10, 2011 – Dec. 31, 2012	On or after Jan. 1, 2013
Benefit Formula	2.7% @ 55	2.0% @ 60	2.0% @ 62
Benefit Vesting Schedule	5 years service	5 years service	5 years service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life
Retirement Age	50 - 55	50 - 63	52 - 67
Monthly Benefits, As a % of Eligible Comp.	2.0% - 2.7%	1.092% - 2.418%	1.0% - 2.5%
Required Employee Contribution Rates	8%	7%	5.75%
Required Employer Contributions Rates	9.393%	9.393%	9.39%

Source: Milpitas Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2018.

Employees Covered. The following employees were covered by the benefit terms for the Miscellaneous Plan as of the most recent actuarial valuation date of June 30, 2016 and the measurement date of June 30, 2017.

<u>Employees</u>	Miscellaneous Plan		
	<u>Classic Tier I</u>	<u>Classic Tier II</u>	<u>PEPRA Tier</u>
Inactive employees or beneficiaries receiving benefits	349	--	--
Inactive employees entitled to but not yet receiving benefits	307	--	--
Active employees	<u>144</u>	<u>3</u>	<u>30</u>
Total	800	3	30

Source: Milpitas Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2018.

Unfunded Accrued Liability. Each year, CalPERS provides the City with its minimum required employer contributions to the Miscellaneous Plan. As of July 2019, the City's required contributions for the unfunded accrued liability (UAL) for the Miscellaneous Plan for Fiscal Year 2020-21 is \$6,322,130, and projected for Fiscal Year 2021-22 to be \$7,063,000. Future year contributions are subject to change, and may be higher than projected due to CalPERS investment returns, actuarial assumptions and other factors.

Net Pension Liability. The City's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Miscellaneous Plans was measured as of June 30, 2018. The changes in

net pension liability for the Miscellaneous Plan from June 30, 2017 to June 30, 2018 are shown in the following table.

	Miscellaneous Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2017	\$222,345,892	\$155,168,033	\$67,177,859
Changes in the Year:			
Service Cost	3,042,853		3,042,853
Interest on the Total Pension Liability	15,647,110		15,647,110
Changes in Benefit Terms	0		0
Changes of Assumptions	(1,404,854)		(1,404,854)
Differences Between Actual & Expected Experience	1,831,444		1,831,444
Net Plan to Plan Resource Movement		\$(381)	381
Contributions – Employer		5,762,448	(5,762,448)
Contributions – Employees		1,473,732	(1,473,732)
Net Investment Income		13,123,448	(13,123,448)
Benefit Payments, Including Refunds of Employee Contr.	(10,906,398)	(10,906,398)	0
Administrative Expense		(241,795)	241,795
Other Misc. Income/(Expense)		(459,172)	459,172
Net Changes during 2017-18	\$8,210,155	\$8,751,882	\$(541,727)
Balance at June 30, 2018	\$230,556,047	\$163,919,915	\$66,636,132

Source: CalPERS GASB 68 Accounting Report.

Changes in Net Pension Liability are subject to various assumption and are sensitive to changes in the discount rate for the Miscellaneous Plan, among other things. For additional details on the Miscellaneous Plan and related matters, see Note 11 to the City's audited financial statements for the fiscal year ending June 30, 2018, attached hereto as Appendix B.

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 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 subsequent three years as shown in the following schedule.

<u>Fiscal Year</u>	<u>Discount Rate</u>
2017-18	7.375%
2018-19	7.250
2019-20	7.000

PARS Plan. The Omnibus Budget Reconciliation Act of 1990 mandated that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan. The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System ("**PARS**"), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs. The City's required contributions of \$28,844 and the employee's required contributions of \$115,367 were made during the fiscal year ending June 30, 2018.

Deferred Compensation Plan. City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the plan. The laws governing deferred compensation plan assets require plan assets to be held by a trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they are excluded from the City's financial statements.

Other Post-Employment Benefits (OPEB). The City provides postretirement health care benefits through its Retiree Medical Benefits Plan to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. As of June 30, 2018 there were 280 participants receiving these health care benefits. The City joined the California Employers' Retiree Benefit Trust ("**CERBT**"), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

In order to qualify for postemployment medical and dental benefits an employee must retire from the City and maintain enrollment in one of City's eligible health plans. In addition, there are eligibility rules and contribution requirements defined in the Memorandum of Understanding (MOU) with each employee group. In the MOUs, the Benefit Cap is defined as not more than the single medical premium rate paid by the City for active employees, and the Retiree Cap is 15%

above the single Kaiser medical premium rate. The eligibility rules for each MOU are summarized in the City's audited financial statements.

The City's policy is to prefund these benefits by accumulating assets with CERBT pursuant to the City's annual budget approved by the City Council. For the year ended June 30, 2019, the City's contributions to the plan were \$4,803,893, and the net OPEB liability as of June 30, 2018 was \$43,904,884, which was a \$508,889 decrease from the net OPEB liability as of June 30, 2017 of \$44,413,773.

See APPENDIX B for additional details regarding the City's pension and other employee benefits, including as relates to OPEB.

THE WASTEWATER SYSTEM

History

When the City was incorporated in 1954, the Milpitas Sanitary District was formed, with original facilities consisting of a collection system and sewer treatment plant. In 1964, several new facilities were installed, including a trunk sewer upstream of the plant, lift station, settling basins, activated sludge basins, chlorine contact basins, digester, and a blower building. Most of these facilities have since been removed.

In the 1960's, a small lift station serving the Pines subdivision within the City was constructed. The system's main pumping station (the **"Main Pump"**), initially constructed in 1965, originally served as the pumping station into the Milpitas Wastewater Treatment Plant. The Milpitas Wastewater Treatment Plant was abandoned in 1972, and the Main Pump was converted into a pumping station that pumps all wastewater generated in the City (the **"Main Lift Station"**) to the San José/Santa Clara Regional Wastewater Facility (previously defined as the **"Treatment Facility"**) via a force main for treatment. In 1980, the Milpitas Sanitary District was dissolved and the City took over its operations. In 2002, a second force main/pumping station was constructed on Venus Way (the **"Venus Lift Station"**), in order to connect a low-elevation portion of the City to the gravity sewer system. The Main Lift Station was upgraded in 2009 to include a new grinder structure, pump control building, and storage garage. All wastewater is still pumped to the Treatment Facility for treatment, with the City paying a share of the capital and operations and maintenance costs of the Treatment Facility.

The Wastewater Division of the City's Department of Public Works is responsible for the operation, maintenance and improvement of the Wastewater System.

Service Area

The service area of the Wastewater System can be divided into two distinct areas: (i) roughly 10.1 square miles on the relatively flat **"Valley Floor"** to the west and (ii) 3.5 square miles on the steep **"Hillside"** to the east. The Valley Floor areas are zoned for industrial, commercial, and residential uses. The Hillside areas are zoned for residential use only. Park and recreational open spaces are distributed throughout the residential areas.

The Wastewater System's service area includes areas inside the City limits and the easterly hillside area outside the City limits. The Wastewater System collects wastewater flows from approximately 13 square miles within the City planning area, serving a population of approximately 77,000.

Physical Assets

The City's wastewater flows are conveyed mostly by gravity to the Main Lift Station, which pumps the wastewater flow to the Treatment Facility through two force mains. The Wastewater System includes a number of siphons under the San Francisco Public Utility Commission (**"SFPUC"**) water supply pipeline, creeks and highways.

Physical assets of the Wastewater System include: 179 miles of sewer mains, 945,120 linear feet (**"LF"**) of sewer pipes, 10 air-vac valves, 2,022 flushing inlets, 2,604 manhole covers, and 2 pump stations (the Main Lift Station and the Venus Lift Station).

San José/Santa Clara Regional Wastewater Facility

The Treatment Facility. Currently, all wastewater collected from the City is pumped via the Main Pump to the Treatment Facility. Operating on a 24-hour schedule, 365 days per year, the Treatment Facility treats an average of 167 million gallons per day (“**MGD**”) of wastewater and serves the population of 8 south bay cities and two unincorporated districts. The Treatment Facility is one of the largest advanced wastewater treatment facilities in the State and serves over 1.5 million people in a 300-square mile area located around the southern part of the San Francisco Bay.

The Treatment Facility is jointly owned by the cities of San José and Santa Clara and is administered and operated by the City of San José’s Environmental Services Department (“**ESD**”), which is also responsible for planning, designing and constructing new wastewater treatment and water reuse facilities. Pursuant to contracts entered into between the cities of San José and Santa Clara, on the one hand, and member agencies that send untreated wastewater to the Treatment Facility, on the other hand (each, a “**Member Agency**”), the costs of the Treatment Facility are shared. The City’s contract is referred to as the Master Agreement and is described below.

Treatment Facility costs are estimated annually by ESD staff and are reviewed and recommended as a budget by the Treatment Plant Advisory Committee to the San José City Council for appropriation. These costs are then allocated to each Member Agency based on its contracted-for capacity in the Treatment Facility. Each Member Agency is responsible for its allocated share of Treatment Facility costs, as well as its own sewage collection system maintenance, operation, and capital costs; debt service on its bonds issued for sewer purposes; and any other sewer service related costs.

Each Member Agency is responsible for establishing and collecting its respective sewer service and use charges, connection fees or other charges for sewer service. Rates are adopted by ordinance or resolution of the governing body of each Member Agency. The Member Agencies’ revenue programs, ordinances and resolutions are submitted to the city of San José, as the administering agency, for review to determine conformance with State Water Resources Control Board (“**SWRCB**”) revenue program guidelines, and are then submitted to the SWRCB for review and certification.

The Treatment Facility’s treatment capacity is allocated to each Member Agency on the basis of the peak five-day dry weather flow, also referred to as the peak week flow. The peak week flow is determined by ESD staff, which reviews influent data to determine the five-day period of interest during the months of June through October and requests each Member Agency to provide their average contribution for that identified peak week. Accordingly, this data set may or may not match with the City’s highest dry weather flows. Pursuant to its Treatment Facility contract, the City’s current entitlement for flow and wastewater strength parameters (where “**BOD**” means Biological Oxygen Demand, “**SS**” means Suspended Solids and “**NH3**” means Ammonia Nitrogen) are set forth below:

<u>Flow (MGD)</u>	<u>BOD (k lbs/day)</u>	<u>SS (k lbs/day)</u>	<u>NH3 (k lbs/day)</u>
14.25	27.249	25.990	2.847

The Master Agreement. The Master Agreement for Wastewater Treatment Between City of San José, City of Santa Clara and City of Milpitas, dated as of March 1, 1983 (the “**Master Agreement**”), is the agreement that gives the City rights to a percentage of the Treatment

Facility's treatment capacity. Pursuant to the Master Agreement, the City is allocated flow capacity rights of 14.25 MGD (or approximately 8.553% of the total Treatment Facility capacity), and, in exchange, pays a share of operation and maintenance costs and certain capital costs and debt service amounts.

The Master Agreement is scheduled to terminate on January 1, 2031. However, it also provides that if, for any reason, the Master Agreement is not renewed in the year 2031, the City would have the right to continue discharging to the Treatment Facility, provided all payments of the City's share of Treatment Facility costs are made. All other rights of the City under the Master Agreement would cease.

The Master Agreement:

- grants the City a right to discharge wastewater into the Treatment Facility;
- obligates the City to adopt and enforce ordinances, resolutions, rules and regulations to conform to the industrial waste ordinance of the City of San José concerning the type and condition of discharge that would be detrimental to the Treatment Facility;
- restricts the City's discharge to wastewater produced within the City's service area, as mapped in the Master Agreement;
- sets up a mechanism for the City to acquire or dispose of "excess pooled capacity" and to acquire additional capacity rights if the Treatment Facility expands;
- establishes the City's participation and rights in the Treatment Facility;
- creates a nine-member advisory committee, with a Milpitas City Councilmember as one member, to aid in the operations and administration of the Treatment Facility;
- specifies that the City may sell, grant, assign or otherwise transfer the Master Agreement to any corporation, district or governmental organization; and
- obligates the City to make payments associated with certain future improvements at the Treatment Facility.

The Master Agreement has been amended four times to date, as follows.

First Amendment. The First Amendment, dated December 4, 1985, (i) reallocated the treatment capacities of each Member Agency, (ii) reallocated the distribution of rights to the Treatment Facility, and (iii) established ratios for each Member Agency's participation in the Intermediate-Term Project (restoration of the Treatment Facility capacity to 143 MGD, which was completed; the City paid all amounts due for its capacity in this project) and First Stage Expansion Project (expansion of the Treatment Facility capacity from 143 to 167 MGD, which was completed; the City paid all amounts due for its capacity in this project).

Second Amendment. The Second Amendment, dated November 21, 1995, further reallocated costs among the Member Agencies in connection with the Intermediate-Term and First Stage Expansion Projects and water recycling program of the Treatment Facility (to reclaim a portion of the Treatment Facility's effluent as an alternative to discharging to the San Francisco South Bay, which was incorporated into the Treatment Facility's National Pollutant Discharge Elimination System ("**NPDES**") permit in October 1993).

Third Amendment. In early 2006, the City entered into an agreement with the West Valley Sanitation District (the "**WVSD**") to purchase excess wastewater treatment capacity (1 MGD) from the WVSD. In connection with this agreement, a Third Amendment dated July 1, 2006 was executed, which established the new capacity right allocation and capital cost share for the City as a result of the transfer.

Fourth Amendment. The Fourth Amendment, dated August 5, 2009, allowed the City to purchase additional wastewater capacity at the Treatment Facility from the Cupertino Sanitary District.

Litigation Regarding the Treatment Facility. On March 23, 2018, Milpitas and several sanitation districts (collectively, the "**Tributary Agencies**") filed a civil suit against the cities of San José and Santa Clara, Case No. 18CV324580, Superior Court of California, County of Santa Clara, *County Sanitation District 2-3, West Valley Sanitation District, Burbank Sanitary District, Cupertino Sanitary District, and the City of Milpitas v. The City of San José, The City of Santa Clara, and Does 1-50* (the "**Action**"). The Tributary Agencies' Complaint alleges causes of action for breach of contract, breach of covenant of good faith and fair dealing, breach of mandatory duty for violating propositions 218 and 26, unjust enrichment, and declaratory judgment, arising out of San José's alleged improper billing practices, mismanagement, and lack of transparency and accountability in the operation of the Treatment Facility.

On March 6, 2019, San José filed a Cross-Complaint against the Tributary Agencies alleging eight causes of action for declaratory relief related to the Master Agreements. Milpitas and San José are engaged in confidential settlement discussions, and are in the process of exchanging and reviewing information necessary for a potential resolution of the dispute. Discovery is in its early stages and the ultimate resolution of the Action and the parties' disagreements over the Master Agreements' treatment of long-term capital improvements at the Treatment Facility is uncertain.

Management

Brief biographies of key members of City staff involved in management of the Water System are set forth below:

Public Works Director – Tony Ndah, P.E. Mr. Ndah was appointed as the City's Public Work Director in January 2018, having previously been appointed Deputy Public Works Director in July 2017. Prior to joining the City, he worked for SCVWD. He has over 20 years of experience in civil engineering, and is a licensed Professional Civil Engineer. He holds a bachelor's degree in civil engineering and a master's degree in Public Administration from San José State University. In his role as Public Work's Director, Mr. Ndah plans, organizes, directs and oversees the operations and maintenance of the Water System. He also assists with providing recommendations to the City Engineer for the preparation and administration of capital improvements programs for the Water System.

Engineering Director/City Engineer – Steven Erickson, P.E. Mr. Erickson was appointed as the City's Engineering Director/City Engineer in January 2018. Mr. Erickson has been an engineer with the City for over 28 years, and he is a licensed Professional Civil Engineer. He holds a bachelor's degree in civil engineering from San José State University. In his role as Engineering Director/City Engineer, Mr. Erickson plans, organizes, directs, and oversees the activities, operations programs, and projects of the Engineering Department including the preparation and administration of the 5-year Capital Improvement Program (CIP). Responsibilities include the development and administration of consultant contracts, engineering design, construction management, and construction inspection of capital projects funded in the CIP, including projects for the construction and replacement of potable water, recycled water, sanitary sewer, and storm drainage infrastructure. Areas of engineering oversight are land development, municipal buildings, traffic, design, sewer, water, and storm utilities.

Director of Finance – Walter C. Rossmann. Mr. Rossmann was appointed Director of Finance of the City in June 2019. Prior to joining the City, Mr. Rossmann has held numerous roles grounded in finance, including Budget Director for the City of Palo Alto, Assistant Budget Director for the City of San José, supporting debt issuances, Deputy Director of Finance for Accounting for the City of San José and Purchasing and Procurement and Information Systems Manager for the City of San Diego. Most recently, Mr. Rossmann served as Chief Operating Officer for the City of Santa Clara and the Assistant City Manager for the City of Sunnyvale. Mr. Rossmann holds a Master of Science in Applied Mathematics from Texas A&M University-Corpus Christi. In his role of Director of Finance, Mr. Rossmann oversees the Finance Department, which has an annual budget of approximately \$6.1 million and a staff of 29.5.

Regulatory Requirements

General. The City is not aware of any environmental or regulatory issues that would adversely impact its ability to operate the Wastewater System.

Treatment Facility-Related Requirements. Because the City discharges wastewater to the Treatment Facility for treatment and disposal, the City's wastewater operations are subject to many of the same regulatory requirements as the cities of Santa Clara and San José. These requirements are contained in the Federal Water Pollution Control Act, as amended (the "**Clean Water Act**"), and in the State Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Regional Water Quality Control Board Regional Water Board (the "**RWQCB**"), and generally deal with the quality of effluent discharged from the Treatment Facility, the disposal of biosolids from the Treatment Facility, the discharge of pollutants into the groundwater and the nature of waste material (particularly industrial waste) discharged into the collection system.

Wastewater discharge criteria are established for the Treatment Facility under a five-year NPDES permit that is scheduled to expire October 31, 2019. [Note: To be updated] These limits are included in the Milpitas Sanitary Code and are listed in industrial wastewater permits issued to industries within the Wastewater System service area. There have been no violations of effluent limitation in the past three years. The NPDES permit includes a pretreatment program element, pursuant to which City of San José must implement and enforce an approved pretreatment program. The pretreatment program was last audited by the United States Environmental Protection Agency (the "**EPA**") in 2016, and no major program deficiencies were noted.

The NPDES Permit also includes a pollution prevention program element that requires the Treatment Facility to continuously conduct and improve an existing pollution prevention program. The City submits Pollution Prevention (“**P2**”) Annual Reports to the RWQCB, which has deemed the pollution prevention program in compliance each of the past several years. In 2016, the Treatment Facility won RWQCB’s annual P2 award for best program in the Bay Area.

The Treatment Facility discharges into the lower southern portion of the San Francisco Bay (the “**South Bay**”), which is a unique hydrogeologic environment where site-specific water quality objectives and protection of endangered species habitat are considered essential. Metals along with organics and pesticides, often referred to as emerging pollutants, have been of concern to the health of the entire San Francisco Bay. Examples of both current and future pollutants of concern include copper, nickel, mercury, and cyanide. The five organics and pesticides limits currently in the Treatment Facility’s NPDES Permit are there due to background levels in the South Bay, but they are not detected in the Treatment Facility’s effluent. The Treatment Facility’s advanced treatment capabilities along with the pollution prevention and pretreatment programs described above make the Treatment Facility’s effluent amongst the highest quality in the Bay Area and the nation. Pollution prevention and the pretreatment program will be the mechanisms to maintain or reduce influent pollutant levels. The City does not believe that the future Treatment Facility NPDES permit is likely to include more stringent wastewater treatment requirements.

Most of the treated effluent from the Treatment Facility is discharged as fresh water into the South Bay. This effluent has a lower salinity content than the brackish water of the South Bay and can adversely affect the ecological balance of the area. Because of this ecological risk, the RWQCB set a target limit on the amount of effluent that the Treatment Facility can discharge into the Bay between May and October, the dry-weather months. The target limit is currently set as 120 MGD of average dry weather effluent or to levels that protect endangered species habitat. Currently, the year-round and average dry weather influent flow is 101 MGD.

The Treatment Facility’s Title V Air Permit, No. A0778, issued by the Bay Area Air Quality Management District was issued in March 2017 and will be up for renewal in March 2022.

The South Bay Water Recycling Project (“**SBWR**”) was established as a means of diverting effluent for non-potable uses such as landscaping, agricultural irrigation, and some industrial uses. Approximately 15 MGD of recycled water is produced through the SBWR Project. The South Bay Action Plan includes a number of projects to help reduce Treatment Facility effluent. The projects include expansion of the recycled water system, industrial water recycling and reuse, inflow infiltration reduction, and residential/commercial water conservation. The city of San José has issued a document titled Clean Bay Strategy Report, which identifies several methods for reducing flow volumes and pollutants to the Bay. South Bay Water Recycling Permit No. 95-117 was issued by the WQCB and does not have an expiration date. There have been no violations in the past three years.

Wastewater System-Related Requirements. In August 2009, the City approved and certified its first ever Sanitary Sewer Management Plan (“**SSMP**”), which is a document that describes the activities the City uses to manage its wastewater collection system effectively, including as relates to maintaining infrastructure to ensure reliable wastewater service, minimizing infiltration/inflows and minimizing the number of sanitary sewer overflows. The City last updated its SSMP in 2016, and is scheduled to update and recertify its SSMP by the end of 2019.

Historical Wastewater Flow

The following table sets forth the volume of wastewater collected by the Wastewater System and pumped to the Treatment Facility in the preceding 10 calendar years. Although wastewater flow remains fairly stable throughout the year, there is typically a slight increase in flows sent to the Treatment Facility during wet weather months due to infiltration and inflow.

Table 1
Peak Week to Average Dry Weather Flow Ratio

Calendar Year	Reported Peak Week Flow (MGD)	Estimated Avg. Dry Weather Flow (MGD) ⁽¹⁾	Estimated Peak Week to Avg. Dry Weather Flow Ratio
2009	16.76	121.00	0.14
2010	7.97	111.60	0.07
2011	8.14	113.00	0.07
2012	7.90	111.40	0.07
2013	7.61	110.30	0.07
2014	7.03	108.00	0.07
2015	7.10	96.20	0.07
2016	7.13	101.10	0.07
2017	9.50	107.30	0.09
2018	9.00	110.30	0.08

(1) Average flow between June and October based on flow data at the Main Pump Station.
Source: City of Milpitas.

Customer Base

The tables on the following page show (1) the number of Wastewater System customers by class of customer for Fiscal Year 2018-19 and (2) historical Wastewater System accounts by customer for the past five fiscal years. In Fiscal Year 2018-19, residential customers comprised approximately 94% of total accounts with single-family residences alone accounting for approximately 81% of total accounts.

Table 2
Sewer Accounts by Customer Class⁽¹⁾
Fiscal Year 2018-19

User Groups	Number of Accounts
Residential	
Single Family Home	12,529
Multiple Family	1,901 ⁽²⁾
Mobile Home	3 ⁽³⁾
Subtotal – Residential Accounts	14,433
Non-Residential	
<u>Commercial</u>	
Hotels, motels, senior housing	28
General offices, retail, shopping	360
City of Milpitas accounts	49
Service stations, repair shops, car washes	40
Eating and drinking establishments	106
Personal services (laundry, barber/beauty shops, cleaner)	40
Subtotal – Commercial Accounts	623
<u>Industrial</u>	
Subtotal – Industrial Accounts	322
<u>Institutional</u>	
Schools/colleges	56
Convalescent homes/day care	18
Elmwood Correctional Facility	5
Subtotal – Institutional Accounts	79
Total	15,457

(1) A sewer account is defined as a sewer charge tied to the location of a meter.

(2) Equal to 11,892 dwelling units.

(3) Equal to 521 dwelling units.

Source: City of Milpitas.

Table 3
Historical Number of Sewer Accounts⁽¹⁾
by Customer Class
Fiscal Years 2014-15 through 2018-19

Fiscal Year	Industrial	Commercial	Institutional	Single- Family	Multifamily	Mobile Homes	Total
2014-15	304	704	88	12,412	1,855	3	15,366
2015-16	301	690	90	12,482	1,874	3	15,440
2016-17	303	626	81	12,510	1,882	3	15,405
2017-18	310	608	76	12,519	1,891	3	15,407
2018-19	322	623	79	12,529	1,901	3	15,457

(1) A sewer account is defined as a sewer charge tied to the location of a meter.

Source: City of Milpitas.

The following table sets forth the Wastewater System's major users and their revenues for Fiscal Year 2018-19, based on total revenues of \$17,654,803.73 and a total annual flow of 1,174,627 hundred cubic feet (HCF) (2.407181 MGD).

Table 4
Top Ten Customers by Total Revenue
Fiscal Year 2018-19

No.	Account Name	Type of Use	Flow (MGD)	% of Flow ⁽¹⁾	Revenues	% of Revenues ⁽²⁾
1	Linear Technology	Commercial	0.1971	8.2%	\$441,501	2.5%
2	SCC GSA Fiscal Bldg 3	Commercial	0.1089	4.5	291,953	1.7
3	Evoqua Water Technologies	Commercial	0.1048	4.4	251,305	1.4
4	Milpitas Mills LP	Commercial	0.0820	3.4	210,219	1.2
5	Headway Technologies Inc.	Commercial	0.0893	3.7	197,787	1.1
6	Milpitas Square	Commercial	0.0461	1.9	169,277	1.0
7	KLA-TENCOR	Commercial	0.0745	3.1	167,561	0.9
8	SCC GSA Fiscal Bldg 3	Commercial	0.0514	2.1	137,728	0.8
9	T Marzetti Company-West	Commercial	0.0366	1.5	119,439	0.7
10	Corwil Technology	Commercial	0.0472	2.0	106,032	0.6
Total			0.8379	34.8%	\$2,092,803	11.8%

(1) Based on total flow of 1,174,627 hundred cubic feet ("HCF"), or 2.407181 MGD.

(2) Based on estimated Wastewater System charges of \$17,654,804.

Source: City of Milpitas.

Wastewater Rates and Revenues

General. The City currently recovers the cost of operating, maintaining, repairing, replacing and expanding the Wastewater System, including the cost of treating and disposing of wastewater through the Treatment Facility, through user fees, plus interest earnings. The user fees are: (1) Sewer Service Charges, (2) Sewer Connection Fees, and (3) Treatment Plant Fees.

The Milpitas Municipal Code provides for the collection of fees and charges for the Wastewater System that are reasonably necessary for the acquisition, construction, reconstruction, maintenance and operation of the Wastewater System, including payment of the Installment Payments and debt service for the revenue bonds used to finance the City's proportionate share of capital improvements at the Treatment Facility. Additionally, the SWRCB and the EPA require that the City's wastewater income structure be such that users of the system pay according to use of the system and the quality of wastewater discharged into the system.

Rate Setting Process. The City Manager annually reviews the system of rates and charges as part of the budgetary process. In May of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and expenses and the means of financing them. Separate public hearings for utility rates and the operating budget are conducted by the City Council to obtain citizen comments. The City Council adopts utility rates by ordinance. The budget is adopted, prior to June 30, through passage of appropriate resolutions. The final adopted budget is subject to amendment to reflect any significant changes in expenditures or revenues due to State or federally mandated programs, emergencies, or other unforeseen occurrences. The City's budget guidelines state that:

- Sewer customer rates and fees will be reviewed and adjusted annually, if necessary,

- All utility enterprise funds will be operated in a manner similar to private enterprise, and as such, the City will set fees and user charges at a level that fully supports the total direct and indirect cost of the activity, including depreciation of assets, overhead charges, and reserves for unanticipated expenses and capital projects.
- The City will maintain a working capital reserve in the Sewer Fund of approximately 25% of the annual operating and maintenance expenses.

See “RISK FACTORS – Proposition 218” for information about the City’s compliance with Proposition 218 in connection with adopting rates for the Wastewater System.

2018 Rate Study. A rate study was prepared for the City by Municipal & Financial Services Group in November 2018 (the “**2018 Rate Study**”). The 2018 Rate Study provides a financial plan for funding the operating and capital costs of the Wastewater System for Fiscal Years 2018-19 through 2022-23, and takes into account amounts expected to be billed to the City related to the improvements being undertaken at the Treatment Facility. The 2018 Rate Study is based on various assumptions and models regarding revenues and expenses, as indicated therein. The rates set forth in the 2018 Rate Study (which extend through Fiscal Year 2022-23) were properly noticed and a public hearing was held in accordance with Proposition 218. The City Council then approved all of the rates, subject to annual re-certification in the budget process that the rate plan is still necessary as planned.

Current Sewer Service Charges. The City’s sewer service charges for residential customers are charged at a flat rate which is based on the type of residential structure and the number of dwelling units related thereto (for multi-family and mobile home park categories). For commercial, industrial and miscellaneous customers, there is both a flat-rate charge and a quantity charge. The current sewer service charges, effective as of July 1, 2019, are summarized below. For a table showing current and projected future rates (based on the 2018 Rate Study), see Table 5.

Residential. Residential charges are bi-monthly for each dwelling unit.

Category	Bi-Monthly Charge
Single-Family Per Dwelling Unit	\$102.52
Multi-Family Per Dwelling Unit	78.73
Mobile Home Parks per Dwelling Unit	64.70

Commercial, Industrial and Miscellaneous Premises.

Flat Rate: For non-residential accounts, there is a flat rate assessed every billing cycle during which normal billing takes place, regardless of the amount of sewage discharged, to defray billing and administration costs. The current bi-monthly flat rate charge is \$24.30.

Quantity Charges: For each commercial, industrial, or miscellaneous premises, a charge for each one hundred cubic feet of water used per billing cycle is charged. Charges range from \$3.94 per HCF to \$8.34 per HCF, depending on the business or type of business.

Unmetered Wastes. When metering is not provided, or for newly constructed units, the City makes a reasonable estimate of the volume of water consumed to be used as a basis for sewer service charges.

Connection Fees. The City charges a Sewer Connection Fee for connection to the Wastewater System. Revenues derived from Sewer Connection Fees and Treatment Plant Fees, pursuant to the Milpitas Municipal Code and subject to the limitations of California Government Code Sections 66000-66003 (“**AB1600**”), are placed into a specific fund for sewer connection fees and are expended only for authorized sewer, storm drain, industrial waste or hazardous waste purposes. All interest earnings on moneys held in the Sewer Fund are retained in the Sewer Fund. The methodology for developing the fee schedules for the above outlined charges is governed in part by the Milpitas Municipal Code and the SWRCB, acting on behalf of the EPA, and are intended to comply with Proposition 218. See “RISK FACTORS – Proposition 218” for information about the City’s compliance with Proposition 218 in connection with adopting rates for the Wastewater System.

Revenue from the Sewer Connection Fee was \$1,152,919 for Fiscal Year 2018-19. Sewer Connection Fees are not included as part of the definition of “Gross Revenues.”

The Sewer Connection Fees are identified below:

Residential: \$1,908 per single family residence; \$1,406 per unit for multi-family developments.

Non-Residential: \$8.52 per gallon of estimated average daily wastewater discharge.

If the estimated amount of sewage to be discharged exceeds the Master Plan limit, a developer impact fee may be assessed in lieu of off-site improvements.

Treatment Plant Fees. The City collects a Treatment Plant Fee as part of the building permit application. The fee is based on the amount and content of the proposed sewage discharge. Revenue from the Treatment Plant Fee was \$69,272 for Fiscal Year 2018-19. The fees are identified below.

Residential: \$880 per single family dwelling unit; \$690 per condo / townhouse / multi-family; and \$440 per mobile home.

Non-residential: For each commercial, industrial or institutional connection having an estimated consecutive peak five-day dry weather sewage discharge of less than 5,000 gallons per day, the Treatment Plant Fee is based upon the type of use and rate described below. The fee is computed by multiplying the following rates by the estimated peak five-day discharge in HCF per day or fraction thereof. The peak five-day discharge is established by the City Engineer (subject to review based on data provided by the connecting party).

<u>Type of Use</u>	<u>Rate/HCF/Day</u>
High strength industrial/commercial; Restaurants, eating and drinking, retail food stores	\$4,200
Low strength industrial/commercial: All others	2,600

For each commercial, industrial or institutional connection having a consecutive peak five-day dry weather sewage discharge of 5,000 gallons per day or more, the Treatment Plant Fee is based upon the volume and the quality of the discharge based on the loading parameters of the

Treatment Facility. Set forth below are examples of typical fees:

Type of Use	Rate per Sq. ft.
Electronic R&D, Assembly	\$0.63
Electronic Manufacturing	19.00
Laundromat	14.15
Motels	0.73
Office	0.35
Restaurant (Fast food, deli)	3.37
Restaurant (Full Service)	5.84
Retail Commercial	0.25
Repair Shops, Service stations	1.74
Warehouse, storage	0.18

Current and Projected Rates. The following table shows historical levels of the City's Sewer Service Charges, as well as anticipated future rates based on the rates set forth in the recently adopted 2018 Rate Study. *No assurance can be given that the City Council will actually raise rates at the levels set forth in the 2018 Rate Study in future years.*

Table 5
Historical and Projected Bi-Monthly Rates for
Single-Family Residential Customers

Fiscal Year	Bi-Monthly Single-Family Sewer Service Charge	% Rate Change
2010-11	\$70.94	N/A
2011-12	75.92	7.0%
2012-13	81.23	7.0
2013-14	86.93	7.0
2014-15	86.93	0.0
2015-16	90.27	3.8
2016-17	90.27	0.0
2017-18	90.27	0.0
2018-19 ⁽¹⁾	97.60	4.0
2019-20 ⁽²⁾	102.52	8.0
2020-21 ⁽³⁾	111.07	8.0
2021-22 ⁽³⁾	118.34	7.0
2022-23 ⁽³⁾	124.14	6.0

(1) Rate increase for Fiscal Year 2018-19 was effective as of April 1, 2019.

(2) Rate increase for Fiscal Year 2019-20 was effective as of July 1, 2019.

(3) Rate increases for Fiscal Years 2020-21 through 2022-23 projected, based on rates set forth in 2018 Rate Study as adopted by the City Council. Increases may be lower than indicated.

Source: City of Milpitas.

Comparison to Surrounding Communities. Set forth in the following table is the City's monthly Sewer Service Charges for Fiscal Year 2018-19 for single-family residential users, and a comparison to surrounding communities.

Table 6
Fiscal Year 2018-19 Comparative Monthly Charges
(Single-Family Residential)

<u>Agency</u>	<u>Sewer Service Charge</u>
Oro Loma Sanitary District	\$39.67
City of Hayward	62.50
Dublin San Ramon Services District	66.17
Castro Valley Sanitary District	66.50
Union Sanitary District	67.85
City of San Leandro	69.50
City of Palo Alto	77.32
City of San José	77.80
City of Mountain View	81.60
City of Antioch	85.17
City of Santa Clara	85.82
City of Brentwood	86.00
Cupertino Sanitary District	86.42
West County Wastewater District	86.50
Central Contra Costa SD	88.33
City of Concord	91.17
City of Pleasanton	91.50
City of Pittsburg	91.83
West Valley Sanitation District	92.50
Santa Clara County District 2-3	95.00
City of Milpitas	97.60
City of Livermore	98.50
City of Sunnyvale	98.72
Stege Sanitary District	106.83
North San Mateo County SD	109.50
City of South San Francisco	110.67
City of Alameda	117.33
City of San Mateo	123.17
City of Richmond	128.50
Burbank Sanitary District	133.14
City of Oakland	141.67
Ross Valley Sanitary District (#1)	142.67
San Rafael Sanitary District	143.50
City of Redwood City	153.33
West Bay Sanitary District	178.67
City of San Carlos	186.50
City of Berkeley	234.00

Source: City of Milpitas, from 2018 Rate Study.

Billing and Collection

Sewer Service Charge. Sewer service charges are collected by the City and billed, together with water service charges, on a bi-monthly basis by the City. Bills are due and payable within 21 days of the date of the bill. If payment is not received, a 5% late fee is assessed; then a final notice is sent, after which the account is sent to a collection agency. The Milpitas Sanitary Code authorizes the City to disconnect water service in the event of a failure to pay sewer service charges.

For Fiscal Year 2018-19, delinquency rates for utility bills were as follows: 9% received first delinquent notices; 2.5% received 2nd delinquent notices; and 0.4% of accounts were shut off due to non-payment.

Sewer Connection Fees; Treatment Plant Fees. The Sewer Connection Fee and Treatment Plant Fees are collected as part of the building permit and sewer connection permit application procedures. Permits are not granted until payment has been received.

Capital Improvement Programs

The City adopted a comprehensive five-year plan for capital improvements, the Adopted 2019-2024 Five Year Capital Improvement Program (“CIP”) in June 2019. These are set forth in the following table, together with the expected sources of payment for the items in the CIP. *The following contains estimated projects and project costs, which may vary considerable from actual results.*

Table 7
Capital Improvement Program for Wastewater System
Wastewater Improvement Projects and Available Fund Sources
Fiscal Years 2019-2024

PROJECT	TOTAL COST	PRIOR YEARS	2019-20	2020-21	2021-22	2022-23	2023-24
SJ/SC Regional Wastewater Facility	\$94,122,101	\$37,015,000	\$25,190,050	\$12,524,799	\$5,960,104	\$8,884,263	\$4,547,885
Sanitary Sewer Condition Assessment Prgm	895,000	695,000	50,000	50,000	50,000	50,000	0
Sanitary Sewer Overflow Improvements	505,745	205,745	0	0	225,000	75,000	0
Sewer Pump Station Rehab. Program	700,000	300,000	100,000	100,000	100,000	100,000	0
Minor Sewer Projects	300,000	100,000	50,000	50,000	50,000	50,000	0
Sanitary SCADA	2,000,000	450,000	0	1,550,000	0	0	0
Main Lift Station Odor Emissions Control	2,250,000	300,000	1,950,000	0	0	0	0
Sanitary Sewer Cathodic Protection Imprv.	1,525,000	625,000	900,000	0	0	0	0
Sewer Master Plan 2019	750,000	450,000	300,000	0	0	0	0
Sewer Line Replacement at E. Curtis	1,200,000	0	0	0	0	0	1,200,000
TOTAL COST	\$104,247,846	\$40,140,745	\$28,540,050	\$14,274,799	\$6,385,104	\$9,159,263	\$5,747,885

Summary of Available Financing Sources

	2019-20	2020-21	2021-22	2022-23	2023-24
Sewer Fund	\$0	\$0	\$0	\$0	\$0
Sewer Treatment Fund	1,200,000	0	750,000	0	4,547,885
Sanitary Sewer Bonds	25,190,050	9,809,950	0	0	0
Sewer Infrastructure Fund	2,150,000	4,464,849	5,635,104	9,159,263	0
Other ⁽¹⁾	0	0	0	0	1,200,000
TOTAL AVAILABLE	\$28,540,050	\$14,274,799	\$6,385,104	\$9,159,263	\$5,747,885

⁽¹⁾ “Other” category consists of Transit Area Specific Plan (TASP) impact fees.

Source: City of Milpitas.

Treatment Facility. The City of San José has adopted a Capital Improvement Program for the Treatment Facility for fiscal years 2018-2022 for a total of \$1.51 billion. Revenues are derived from five sources, including the City and other Member Agencies, of which the City is responsible for \$68.7 million (4.74%). The \$1.51 billion is a \$544 million increase (56%) compared to the 2017-2021 adopted Treatment Facility Capital Improvement Program; the increase is attributable to additional capital investment plans.

The City has paid approximately \$25.2 million in capital improvement costs for the Treatment Facility in previous years. The City will fund \$35 million from the issuance of the 2019 Bonds. The cost allocation for the City is based on the constituent (flow, BOD, SS, or NH3) for which the capital improvement would benefit.

Concurrent with the City's budget adoption process, the City of San Jose updated the City of Milpitas' share for the Treatment Facility's capital improvement cost. The table below shows the amounts projected to be billed to the City related to the Treatment Facility capital improvement costs for fiscal years 2019-20 through 2023-24 (from the 2019-2024 Capital Improvement Program). These amounts are slightly different than the 2018-2022 CIP projection described above, due to the passage of time. The City intends to fund the additional \$9.3 million in capital costs through ongoing excess Net Revenue (as shown on Table 9) and reserves.

Table 8
City Share of Treatment Facility
Capital Improvement Program

Fiscal Year	City Share	Amounts Projected to be Billed to City	Total Projected Expenditures
2019-20	7.72%	\$25,190,050	\$326,215,000
2020-21	6.04	12,524,799	207,505,000
2021-22	2.54	11,852,192	466,524,000
2022-23	6.19	13,890,481	224,450,000
2023-24	4.33	2,912,096	67,279,000
Totals:		\$66,369,618	\$1,291,973,000

Source: City of Milpitas.

Outstanding Indebtedness

In 2017, the City issued the 2017 Bonds in the initial principal amount of \$4,725,000, which are currently outstanding in the amount of \$4,245,000 as of June 30, 2019.

Funds and Reserves

The City currently maintains various funds for the Wastewater System, each of which is treated as a separate accounting entity. The key funds are described as follows.

The Sewer Operating Fund is the main operating fund of the Wastewater System. The fund is used to pay for all operating and maintenance costs for wastewater collection and treatment. The fund is also used for ongoing capital and replacement projects as budgeted each year.

The Sewer CIP Fund is used for specific capital improvement projects that were budgeted in past years. Each year, the City sets aside the full cost of capital improvements

approved that year by transferring money from the other three funds to the Sewer CIP Fund. The Sewer CIP Fund typically carries a significant balance that is reserved for the remaining costs of projects approved in prior years but still under construction.

The Treatment Plant Construction Fund is generally used to fund capital improvements at the Treatment Facility or within the City's collection system. The main source of revenues for this fund is treatment plant connection fees and Sewer Connection Fees collected from new development. This fund may also be used to finance the acquisition of additional capacity in the Treatment Facility.

The Sewer Infrastructure Fund was established in fiscal year 2000-01 to build reserves from surpluses in the Sewer Fund to offset the future costs of the repair and replacement of facilities reaching the end of their useful lives. The Sewer Infrastructure Fund is funded with transfers from the Sewer Operating Fund.

The City's fiscal policies provide as follows, among other things:

(1) The City will maintain working capital in the Wastewater System funds to provide for future capital projects and unanticipated emergencies, such as pump station repairs. The City will attempt to maintain a working capital reserve of approximately 25% of the annual operating and maintenance expenses for the Sewer Fund.

(2) The City's goal is to accumulate at least \$2 million a year in the Sewer Infrastructure Fund for replacement of infrastructure as the infrastructure reaches the end of its useful life.

Historical and Projected Debt Service Coverage

The table below provides a historical statement of debt service coverage for Fiscal Years 2014-15 through 2018-19 (budgeted) and projected debt service coverage for Fiscal Years 2019-20 through 2023-24, based on the definitions of Gross Revenues and Maintenance and Operation Costs set forth in the legal documents governing the 2017 Bonds and the 2019 Bonds (which excludes depreciation and other non-cash items).

Table 9
Wastewater System
Historical and Projected Debt Service Coverage
Fiscal Years 2014-15 through 2023-24

	Actual					Projected*				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Gross Revenues										
Charges for services	\$14,362,865	\$15,770,897	\$16,651,740	\$17,052,188	\$17,521,842	\$19,132,127	\$20,662,697	\$22,109,086	\$23,435,631	\$23,435,631
Developer contributions	12,068	120,997	82,220	26,681	69,272	--	--	--	--	--
Other operating revenue	78,439	72,133	69,384	60,904	16,506	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000
Interest income	211,387	444,691	(54,968)	105,973	1,040,227	514,000	514,000	514,000	514,000	514,000
Total Gross Revenues	14,664,759	16,408,718	16,748,376	17,245,746	18,647,847	20,706,127	22,236,697	23,683,086	25,009,631	25,009,631
Maintenance and Operation Costs⁽¹⁾										
Sewer treatment facility services ⁽²⁾	4,314,289	4,550,915	4,545,616	4,715,269	4,680,887	7,045,200	7,256,556	7,474,253	7,698,480	7,929,435
Personnel services	2,007,388	2,110,671	1,036,796	2,836,632	2,519,535	3,069,935	3,192,732	3,288,514	3,387,169	3,488,784
Services and supplies/repairs & maint.	941,876	1,026,262	1,020,377	1,479,828	1,780,172	1,550,907	1,597,434	1,645,357	1,694,718	1,745,559
Transfers out to general fund	1,527,385	1,575,000	1,641,000	1,685,000	1,544,274	1,568,485	1,631,224	1,680,161	1,730,566	1,782,483
Total M&O Costs	8,790,938	9,262,848	8,243,789	10,716,729	10,524,868	13,234,527	13,677,946	14,088,285	14,510,934	14,946,261
Net Revenues	5,873,821	7,145,870	8,504,587	6,529,017	8,122,979	7,471,600	8,558,751	9,594,801	10,498,698	10,063,370
Debt Service										
2006 COPs	684,528	684,348	683,193	--	--	--	--	--	--	--
2017 Bonds	--	--	--	654,157	650,273	647,500	648,700	649,700	649,900	650,000
Installment Payments/2019 Bonds*	--	--	--	--	--	686,575	1,825,125	1,838,500	1,835,500	1,856,375
Total Debt Service*	\$684,528	\$684,348	\$683,193	\$654,157	\$650,273	\$1,334,075	\$2,473,825	\$2,488,200	\$2,485,400	\$2,486,375
Debt Service Coverage Ratio*	8.58	10.44	12.45	9.98	12.49	5.60	3.46	3.86	4.22	4.05
Sewer Fund FYE Cash Balance	\$28,058,179	\$35,263,685	\$37,409,029	\$34,636,667	\$35,354,342					

* Preliminary; subject to change for Fiscal Years 2019-20 through 2023-24.

(1) Excludes depreciation and amortization.

(2) Sewer treatment services is solely an operating expense for the City's share of operating and maintaining the Treatment Facility. It does not include the cost of purchasing additional capacity rights.

Source: City of Milpitas.

Additional Information Regarding Projections. The table above reflects a number of assumptions regarding projected debt service coverage for Fiscal Years 2019-20 through 2023-24, including the following:

- No growth in customers during the projection period.
- Rate increases during the projection period consistent with the previously adopted rate study, which provides for increases of 8% per year for Fiscal Years 2019-2020 and 2020-21, a 7% increase for Fiscal Year 2021-22 and a 6% increase for Fiscal Year 2022-23. No rate increases were assumed for Fiscal Year 2023-24.
- Expenses, including personnel services and services & supplies, are projected to increase at 3% to 4% per fiscal year.
- No additional debt during the projection period.

With respect to capital costs associated with the Wastewater System, the City's current CIP identifies several projects for planning purposes. All future years' projects and their related funding require annual review and approval by the City Council and are therefore subject to change. The City records its infrastructure capital costs, including Wastewater System capital costs as capital assets. Because capital costs are not included in the definition of Maintenance and Operation Costs under the Indenture, they will not affect the availability of Net Revenues to make the Installments Payments. Should the City decide to finance any of these capital costs through the issuance of Parity Debt within the projection period, projected debt service could decrease without a corresponding increase in rates.

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the 2019 Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any 2019 Bonds and the order presented does not necessarily reflect the relative importance of the various risks. Potential investors in the 2019 Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the 2019 Bonds. There can be no assurance that other considerations will not materialize in the future.

Revenues; Rate Covenant

The Revenues securing the 2019 Bonds consist primarily of Installment Payments payable by the City, which, in turn, are secured by the Net Revenues of the Wastewater System. Net Revenues are dependent upon the demand for water usage and resulting wastewater service, which can be affected by population factors and more stringent wastewater regulations. There can be no assurance that wastewater service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for wastewater could require an increase in rates or charges in order to comply with the rate covenants contained in the Installment Sale Agreement. The City's ability to meet its rate covenants is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the Installment Payments and Parity Debt.

No Debt Service Reserve Fund

Neither the Authority nor the City will fund a debt service reserve fund for the 2019 Bonds. If Net Revenues are insufficient for the City to pay the Installment Payments when due, no debt service reserve account funds will be available under the Installment Sale Agreement or Indenture for the City to make such payments.

Maintenance and Operation Costs; Costs of Treatment Facility

There can be no assurance that expenses of the Wastewater System will be consistent with the levels contemplated in this Official Statement. In particular, the City obtains wastewater treatment service from the Treatment Facility, and therefore the City may have less control over the expenses attributable to wastewater treatment than if the City directly owned and operated a wastewater treatment plant. Changes in technology, changes in quality standards, and increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenants in the Installment Sale Agreement. Until such rates can be implemented, Net Revenues may be reduced, increasing the possibility of nonpayment of the Installment Payments and, in turn, the 2019 Bonds.

Costs and expenses arising from the Action may impact Net Revenues. For additional details on the Action and related matters, see "THE WASTEWATER SYSTEM – San Jose/Santa Clara Regional Wastewater Facility – Litigation related to the Treatment Facility." *No assurance can be made as to the ultimate resolution of this dispute.*

Limitations on Remedies Available to Bond Owners

The ability of the City to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay principal of and interest on the Installment Payments and Parity Debt 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 payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the 2019 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Indenture, the rights and obligations of the Authority under the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Seismic and other Natural Disasters; Climate Change

General. The City is located in a seismically active area of California. 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 Wastewater System, resulting in a temporary reduction in the amount of Net Revenues available to timely pay the Installment Payments.

Other natural disasters, such as flooding, landslides or wildfires, could also affect or interrupt the service provided by the Wastewater System, resulting in a temporary reduction in the amount of Net Revenues available to timely pay the Installment Payments.

Droughts. California is subject to droughts from time-to-time. On April 1, 2015, for the first time in California's history, Governor Edmund G. Brown directed the State Water Resources Control Board to implement mandatory water reductions in cities and towns across California to reduce water usage by 25%, which in many cases led to declines in wastewater flows as well. Following a wet winter in 2016-17, most of the mandatory water reductions were lifted. However, there can be no assurance that drought conditions would not re-appear in the future, leading to decreased usage of the Wastewater System, and a potential decline in Net Revenues available to timely pay the Installment Payments.

Sea Level Rise/Climate Change. Net Revenues may be negatively impacted by future sea level rise in the San Francisco Bay area or other negative impacts resulting from climate change. The median elevation of the City is 19 feet. At Piedmont Road, Evans Road, and North Park Victoria Avenue, the elevation is generally about 100 feet, while the western area is almost at sea level. This low elevation, coupled with the proximity to San Francisco Bay, may result in adverse effects to property in the City, and corresponding to Net Revenues, in the future. In

addition, the Treatment Facility may be negatively impacted given its proximity to San Francisco Bay.

The predictions for sea level rise in the San Francisco Bay vary. A report released by the San Francisco Bay Conservation Development Commission predicts sea levels in the San Francisco Bay to rise 16 inches by 2050 and 55 inches by 2100. The State of California's Fourth Climate Change Assessment, released in 2017, estimates sea level rise for the year 2100 in the range of 14 inches to 94 inches with an additional very low probability, worst-case estimate that exceeds 108 inches. A draft paper from the California Climate Change Center posits that increases in sea level will be a significant consequence of climate change over the next century.

Local impacts of climate change are not definitive, but parcels in the City could experience changes to local and regional weather patterns; rising bay water levels; increased risk of flooding; changes in salinity and tidal patterns of San Francisco Bay; coastal erosion; and water restrictions.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the 2019 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2019 Bonds were issued, as a result of future acts or omissions of the Authority or City in violation of its covenants in the Installment Sale Agreement and Indenture. Should such an event of taxability occur, the 2019 Bonds are not subject to special redemption and will remain outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

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 XIIIC 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, limited local governments' authority to impose or increase 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 states 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’s opinion initially indicated that fees and charges for water and wastewater services, which are based on the amount of services consumed, would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID. However, numerous subsequent court cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218. These cases include, for example, *Capistrano Taxpayers Assoc., Inc. v. City of San Juan Capistrano* (186 Cal. Rptr. 3d 362 (Cal. App. 4th Distr. 2015)), *Bighorn-Desert View Water Agency v. Verjil* (46 Cal. Rptr. 3d 73 (Cal. 2006)), and *Howard Jarvis Taxpayers Assoc. v. City of Fresno* (26 Cal. Rptr. 3d 153 (Cal. App. 5th Distr. 2005)).

Under the *Bighorn* case, for example, the court held that under Article XIIC, local voters could adopt an initiative measure that could reduce or repeal a local agency’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, as is the case with respect to the Installment Payments securing the 2019 Bonds.

Under the *City of San Juan Capistrano* case, the court held that tiered or inclined rates that go up progressively in relation to usage must correspond to the actual cost of providing water service at each tier (level of usage), and accordingly the pricing for any tier cannot exceed the cost of service to that tier.

City’s Current Practice Regarding Rates and Charges. The City’s practice in implementing increases in wastewater rates and charges has been to comply with the requirements of Article XIID, including the practice of providing property owners with a 45-day mailed notice and public hearing before the City Council approves rate increases.

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. As noted above, 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, as is the case with respect to the Installment Payments securing the 2019 Bonds. ***There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for wastewater, or to call into question previously adopted wastewater rate increases.***

Environmental Regulation

The kind and degree of wastewater treatment is regulated, to a large extent, by the federal government and the State. Treatment standards set forth in federal and State law control the

operations of the Wastewater System and the Treatment Facility and mandate its use of technology. If the federal government, acting through the Environmental Protection Agency, or the State, acting through the Department of Health Services, or additional federal or State legislation, should impose stricter standards upon the Wastewater System and the Treatment Facility, the City's expenses related to the Wastewater System could increase accordingly and rates and charges would have to be increased to offset those expenses. See "– Maintenance and Operation Costs; Costs of Treatment Facility" above.

It is not possible to predict the direction which federal or State regulation will take with respect to wastewater standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Cybersecurity

The City, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations. As a recipient and provider of personal, private or other sensitive electronic information, the City is potentially subject to multiple cyber threats, including without limitation hacking, viruses, ransomware, malware and other attacks. No assurance can be given that the City's efforts to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City or the Wastewater System, or the administration of the 2019 Bonds.

The City is also reliant on other entities and service providers in connection with the operation of the Wastewater System and the administration of the 2019 Bonds, including without limitation, the city of San José as the operator of the Treatment Facility, the Trustee and the dissemination agent. No assurance can be given that the City and these other entities will not be affected by cyber threats and attacks in a manner that may affect the Bond owners.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2019 Bonds or, if a secondary market exists, that any 2019 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.

Future Parity Debt

As described in "SECURITY FOR THE 2019 BONDS – Parity Debt" above, the Installment Sale Agreement permits the City to issue Parity Debt in the future that is payable on a parity with the payment of the Installment Payments securing the 2019 Bonds. In the event of a decline in Net Revenues available to pay the Installment Payments securing the 2019 Bonds, the existence of additional Parity Debt could adversely affect the City's ability to timely pay the Installment Payments securing the 2019 Bonds.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2019 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “**Tax Code**”) that must be satisfied subsequent to the issuance of the 2019 Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority and City have made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2019 Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a 2019 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a 2019 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium are disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2019 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2019 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2019 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2019 Bonds who purchase the 2019 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2019 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2019 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such 2019 Bonds is sold to the public.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2019 Bond (said term being the shorter of the 2019 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2019 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2019 Bond is amortized each year over the term to maturity of the 2019 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized bond premium is not deductible for federal income tax purposes. Owners of premium 2019 Bonds, including purchasers who do not purchase in the original offering, should consult

their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2019 Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the 2019 Bonds is exempt from California personal income taxes.

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2019 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2019 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2019 Bonds, or as to the consequences of owning or receiving interest on the 2019 Bonds, as of any future date. Prospective purchasers of the 2019 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the 2019 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2019 Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2019 Bonds, the ownership, sale or disposition of the 2019 Bonds, or the amount, accrual or receipt of interest on the 2019 Bonds.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the 2019 Bonds, the form of which opinion is set forth in APPENDIX E. Certain legal matters will also be passed upon for the City by Jones Hall, as Disclosure Counsel and by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Nixon Peabody LLP, Los Angeles, California. The fees of Bond Counsel, Disclosure Counsel and Underwriter's counsel are contingent on the sale and closing of the 2019 Bonds.

NO MATERIAL LITIGATION

No litigation is pending or threatened concerning the validity of the 2019 Bonds. Neither the Authority nor the City is aware of any litigation pending or threatened questioning the political existence of the Authority or the City or contesting the City's power to fix wastewater rates and charges, or the power of the governing body of the Authority or the City Council or in any way questioning or affecting: (i) the proceedings under which the 2019 Bonds are to be issued; (ii) the validity of any provision of the 2019 Bonds, the Installment Sale Agreement or the Indenture; (iii) the pledge of Net Revenues under the Installment Sale Agreement or the pledge of Revenues under the Indenture; or (iv) the titles to office of the present members of the governing body of the Authority or the City Council.

There are a number of suits and claims pending against the City, which may include personal injury, wrongful death and other suits and claims against which the City may self-insure. The aggregate amount of the self-insured liabilities of the City which may result from such suits and claims will not, in the opinion of the City, materially impair the ability of the City to pay the Installment Payments securing the 2019 Bonds as they become due. In addition, the City is named in a cross-complaint brought by the cities of San Jose and Santa Clara related to the Action. See "THE WASTEWATER SYSTEM – San Jose/Santa Clara Regional Wastewater Facility – Litigation related to the Treatment Facility."

There is no litigation pending, with service of process having been accomplished, against the City which if determined adversely to the City would, in the opinion of the City, materially impair the ability of the City to pay the Installment Payments securing the 2019 Bonds as they become due.

RATING

S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("**S&P**") has assigned its municipal bond rating of "____" to the 2019 Bonds. This rating reflects only the views of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The Authority has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement). There is no assurance that this rating will continue for any given period of time or that this rating will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2019 Bonds may have an adverse effect on the market price or marketability of the 2019 Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the 2019 Bonds to provide certain financial information and operating data by not later than nine months after the end of the City's fiscal year, or March 31, of each year (based on the City's current fiscal year-end of June 30), commencing March 31, 2020, with the report for the 2018-19 fiscal year (the "**Annual Report**") and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “**Rule**”). The specific nature of the information to be contained in the Annual Report or the notices of listed events by the City is set forth in “APPENDIX C – Form of Continuing Disclosure Certificate.”

The City and its related governmental entities have previously entered into numerous disclosure undertakings under the Rule in connection with the issuance of long-term obligations. During the past five years, the City and its related entities have not failed to comply, in all material respects, with their undertakings under the Rule.

UNDERWRITING

BofA Securities, Inc., as underwriter of the 2019 Bonds (the “**Underwriter**”), has agreed to purchase the 2019 Bonds from the Authority at a purchase price of \$_____ which represents the aggregate principal amount of the 2019 Bonds, plus/less [net] original issue premium/discount of \$_____, less underwriter’s discount of \$_____.

The purchase contract under which the Underwriter is purchasing the 2019 Bonds provides that the Underwriter will purchase all of the 2019 Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the purchase contract.

The public offering prices of the 2019 Bonds may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2019 Bonds to certain dealers and others at a price lower than the offering price stated on the cover page of this Official Statement.

BofA Securities, Inc., the Underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“**MLPF&S**”). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

MUNICIPAL ADVISOR

The Authority has retained Fieldman, Rolapp & Associates, Inc., as its municipal advisor (the “**Municipal Advisor**”) in connection with the authorization and delivery of the 2019 Bonds. The Municipal Advisor assumes no responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 2019 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the governing body of the Authority and the City Council of the City.

MILPITAS MUNICIPAL FINANCING
AUTHORITY

By: _____
Executive Director

CITY OF MILPITAS

By: _____
City Manager

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR FISCAL YEAR ENDED JUNE 30, 2018**

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
Milpitas Municipal Financing Authority
2019 Wastewater Revenue Bonds

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the City of Milpitas (the “**City**”) in connection with the issuance of the above-captioned bonds (the “**2019 Bonds**”). The 2019 Bonds are being issued by the Milpitas Municipal Financing Authority (the “**Authority**”) under an Indenture of Trust dated as of November 1, 2019 (the “**Indenture**”) by and between the Authority and U.S. Bank National Association, as trustee (the “**Trustee**”). The City covenants and agrees as follows:

Section 1. 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 2019 Bonds and in order to assist the Participating Underwriter in complying with the Rule (defined herein).

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

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

“*Annual Report Date*” means the date that is nine months after the end of the City’s fiscal year (currently March 31 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means, initially, Willdan Financial Services, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

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

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information 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 dated _____, 2019, executed by the City in connection with the issuance of the 2019 Bonds.

“*Participating Underwriter*” means any original underwriter of the 2019 Bonds required to comply with the Rule in connection with offering of the 2019 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.

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, 2020, with the report for the 2018-19 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the 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; 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 Listed Event under Section 5(c). 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.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in a timely manner as required by the Rule, 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) Audited Financial Statements of the City 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 time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing the following:

(i) A schedule of wastewater rates in effect as of the close of the preceding fiscal year, by classification of customer;

(ii) Net Revenues received by the City during the preceding fiscal year and the amount by which such Net Revenues provides coverage for the payments of debt service coming due in such fiscal year with respect to the Installment Payments securing the 2019 Bonds and any other Parity Debt, in substantially the form of Table 9 in the Official Statement;

(iii) A description of any additional indebtedness incurred during the most recently-completed fiscal year that is payable from Net Revenues on a parity or subordinate basis with the Installment Payments securing the 2019 Bonds;

(iv) Customer information, for the most recently ended fiscal year only, in substantially the form of Table 3 in the Official Statement; and

(v) Wastewater System top ten users information in substantially the form of Table 4 in the Official Statement.

(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 Listed Events with respect to the 2019 Bonds:

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

- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City.

Note: For the purposes of the event identified in subparagraph (12), the event 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 U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

- (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) Incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material (for definition of "financial obligation," see clause (c)).
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties (for definition of "financial obligation," see clause (c)).

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) and (a)(15) above, the City determines that knowledge of the occurrence of that Listed Event would be material under applicable Federal securities law, 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 Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) 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 2019 Bonds under the Indenture.

(c) For purposes of Section 5(a)(15) and (16), “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the 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 2019 Bonds. If such termination occurs prior to the final maturity of the 2019 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

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. The initial Dissemination Agent shall be Willdan Financial Services.

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 the City with respect to the 2019 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 2019 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 2019 Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 2019 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 Report 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 this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report 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.

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

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 Listed 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 Listed 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 Listed 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 2019 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 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. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent (if other than the City), the Participating Underwriter and the holders and beneficial owners from time to time of the 2019 Bonds, and shall create no rights in any other person or entity.

Section 13. 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: _____, 2019

CITY OF MILPITAS

By _____
Name: _____
Title: _____

ACCEPTED AND AGREED:

Willdan Financial Services,
As Dissemination Agent

By _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Milpitas Municipal Financing Authority

Name of Issue: \$_____ Milpitas Municipal Financing Authority 2019 Wastewater
Revenue Bonds

Date of Issuance: _____, 2019

NOTICE IS HEREBY GIVEN that the City of Milpitas has not provided an Annual Report with respect to the above-named bonds as required by the Continuing Disclosure Certificate dated as of _____, 2019, executed by the City of Milpitas. The City anticipates that the Annual Report will be filed by _____.

Dated:_____

DISSEMINATION AGENT

By_____
Name:
Title:

APPENDIX D

GENERAL INFORMATION ABOUT THE CITY OF MILPITAS AND THE COUNTY OF SANTA CLARA

*The following information concerning the County of Santa Clara (the “**County**”) and the City of Milpitas (the “**City**”) is included only for the purpose of supplying general information regarding the region in which the Wastewater System is located. The 2019 Bonds are not a debt of the County, the City, the State of California (the “**State**”) or any of its political subdivisions, and neither the County, the City, the State nor any of its political subdivisions is liable therefor. The City and the Underwriter take no responsibility for the accuracy or completeness of such information.*

General

The City. The City was incorporated in January 1954 and encompasses 13.63 square miles. It is located 45 miles south of San Francisco in the northern part of Santa Clara County and is situated in the northeastern side of Silicon Valley. Once a small agricultural town and later a stop-over point for travelers between Oakland and San Jose, Milpitas has grown into one of the world’s premier computer and semiconductor producers.

Milpitas is a general law city that operates under a Council-Manager form of government. The City’s political and legislative body is the City Council, which is empowered by the general laws of the State of California to formulate citywide policy, including a fiscal program, City services and appointment of City Manager and City Attorney. There are four City Council members who are elected at-large for staggered four-year terms; the Mayor is selected every two years in a separate citywide election.

The City provides a full range of municipal services, including: police, fire, neighborhood services, public improvements, planning, building and public facility inspection, engineering, water and sewer utilities, redevelopment, and general administrative services.

The County. The County covers an area of over 1,300 square miles and is located south of the San Francisco Bay in Northern California. There are two distinct valleys in the County, which are referred to as North County and South County. South County primarily features agricultural land and is comprised of only two cities, twenty miles apart from each other. Comprised of 13 adjoining cities, North County is densely populated, heavily industrialized and extensively urbanized. The northwestern portion of North County is commonly referred to as “Silicon Valley,” owing to the high concentration of companies involved in the creation of silicon-based semiconductors. Several small lakes and reservoirs are scattered across the County and the highest peak can be found in San José at Mount Hamilton. Several major highways serve the County, including Highway 101 providing access to San Francisco and Los Angeles.

Population

The following table lists population estimates for the City, the County and the State for the last five years, as of January 1 each year.

CITY OF MILPITAS, COUNTY OF SANTA CLARA, STATE OF CALIFORNIA
Population Estimates
Years 2015 through 2019, as of January 1

Year	City of Milpitas	Santa Clara County	State of California
2015	73,412	1,906,511	38,952,462
2016	74,492	1,925,306	39,214,803
2017	74,721	1,936,052	39,504,609
2018	74,980	1,974,798	39,740,508
2019	76,231	1,954,286	39,927,315

Source: California Department of Finance, Demographic Research Unit.

Industry and Employment

The City is part of the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (“MSA”), which is comprised of Santa Clara and San Benito Counties. The unemployment rate in the San Jose-Sunnyvale-Santa Clara MSA was 2.8 percent in July 2019, up from a revised 2.7 percent in June 2019, and unchanged from the year-ago estimate of 2.8 percent. This compares with an unadjusted unemployment rate of 4.4 percent for California and 4.0 percent for the nation during the same period. The unemployment rate was 5.1 percent in San Benito County, and 2.8 percent in Santa Clara County.

SAN JOSE-SUNNYVALE-SANTA CLARA MSA Civilian Labor Force, Employment and Unemployment Calendar Years 2014 through 2018 March 2018 benchmark

	2014	2015	2016	2017	2018
Civilian Labor Force ⁽¹⁾	1,021,000	1,039,100	1,056,300	1,041,700	1,079,700
Employment	967,200	994,900	1,015,700	1,008,000	1,050,800
Unemployment	53,800	44,200	40,600	33,700	28,900
Unemployment Rate	5.3%	4.3%	3.8%	3.2%	2.7%
<u>Wage and Salary Employment:</u>					
Agriculture	5,300	5,500	6,000	5,800	5,800
Mining and Logging	300	200	300	200	200
Construction	39,700	43,900	48,900	49,300	49,400
Manufacturing	159,500	162,400	163,600	166,400	172,300
Wholesale Trade	37,200	37,200	37,800	32,900	31,700
Retail Trade	86,400	87,800	87,700	85,800	86,300
Transportation, Warehousing, Utilities	14,400	14,600	15,300	134,100	134,100
Information	65,700	70,500	74,600	84,700	91,700
Financial Activities	34,100	34,600	35,600	36,100	37,100
Real Estate and Rental and Leasing	13,300	13,500	14,000	14,500	15,300
Professional and Business Services	203,000	216,300	225,200	237,400	237,300
Educational and Health Services	150,000	156,300	162,100	168,800	172,700
Leisure and Hospitality	91,900	95,800	98,900	103,400	105,000
Other Services	26,400	26,900	27,400	28,900	28,800
Federal Government	9,900	9,900	10,000	10,200	9,900
State Government	6,400	6,700	6,700	6,800	7,100
Local Government	77,100	76,400	77,400	78,600	79,900
Total all Industries ⁽²⁾	1,020,600	1,058,500	1,091,500	1,110,700	1,131,000

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

(2) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Principal Employers

The following table lists the principal employers within the City for the fiscal year 2017-18.

CITY OF MILPITAS Principal Employers Fiscal Year 2017-18

Employer Name	No. of Employees
Cisco Systems, Inc.	3,647
KLA-Tencor Corporations	2,147
San Disk Corporation	1,952
Flextronics International	1,600
Linear Technology Corporation	1,288
Milpitas Unified School District	899
Headway Technologies	698
FireEye, Inc.	664
Wal-Mart	459
Micron Consumer Products	450

Source: City of Milpitas.

The following table lists, in alphabetical order, the largest manufacturing and non-manufacturing employers within the County as of September 2019.

COUNTY OF SANTA CLARA
Major Employers
As of September 2019
(In Alphabetical Order)

Employer Name	Location	Industry
Adobe Inc	San Jose	Publishers-Computer Software (mfrs)
Advanced Micro Devices Inc	Santa Clara	Semiconductor Devices (mfrs)
Alphabet Inc	Mountain View	Internet Search Engines
Apple Inc	Cupertino	Computers-Electronic-Manufacturers
Applied Materials Inc	Santa Clara	Semiconductor Manufacturing Equip (mfrs)
California's Great America	Santa Clara	Amusement & Theme Parks
Christopher Ranch LLC	Gilroy	Garlic (mfrs)
Cisco Systems Inc	San Jose	Computer Peripherals (mfrs)
Ebay Inc	San Jose	E-Commerce
Flextronics International	Milpitas	Semiconductor Devices (mfrs)
Fujitsu Laboratories of Amer	Sunnyvale	Laboratories-Research & Development
Google LLC	Mountain View	Internet Search Engines
Hcl Technologies Ltd	Sunnyvale	Computer Software
Hewlett-Packard	Cupertino	Computers-Electronic-Manufacturers
Intel Corp	Santa Clara	Semiconductor Devices (mfrs)
Intuitive Surgical Inc	Sunnyvale	Physicians & Surgeons Equip & Supls-Mfrs
Lockheed Martin Space Systems	Sunnyvale	Satellite Equipment & Systems-Mfrs
Lumileds Lighting Co	San Jose	Lighting Fixtures-Supplies & Parts-Mfrs
Maxim Integrated Products Inc	San Jose	Printed & Etched Circuits-Mfrs
Microsoft Corp	Sunnyvale	Computer Software-Manufacturers
NASA	Mountain View	Federal Government-Space Research/Tech
Prime Materials	San Jose	Semiconductors & Related Devices (mfrs)
Stanford Children's Health	Palo Alto	Hospitals
Stanford School of Medicine	Stanford	Schools-Medical
US Veterans Medical Ctr	Palo Alto	Hospitals

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2019 2nd edition.

Effective Buying Income

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

The following table summarizes the total effective buying income for the City, the County, the State, and the United States for the period 2015 through 2019.

**CITY OF MILPITAS, SANTA CLARA COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
EFFECTIVE BUYING INCOME
As of January 1, 2015 through 2019**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2015	City of Milpitas	\$2,103,353	\$84,091
	Santa Clara County	66,130,110	75,008
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2016	City of Milpitas	\$2,246,958	\$84,507
	Santa Clara County	73,637,380	79,345
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	City of Milpitas	\$2,461,558	\$85,924
	Santa Clara County	77,917,425	81,466
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2018	City of Milpitas	\$2,683,721	\$90,988
	Santa Clara County	85,859,495	88,243
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	City of Milpitas	\$2,895,468	\$95,783
	Santa Clara County	91,332,099	92,773
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841

Source: The Nielsen Company (US), Inc for years 2015 through 2018; Claritas, LLC for 2019

Commercial Activity

A summary of historic taxable sales within the City and the County during the past five years in which data is available is shown in the following tables.

Total taxable sales during the first quarter of calendar year 2018 in the City were reported to be \$479,540,063 a 13.02% decrease over the total taxable sales of \$551,295,772 reported during the first quarter of calendar year 2017. Annual figures are not yet available for calendar year 2018.

CITY OF MILPITAS
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2013 through 2017 (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	1,196	1,166,488	1,926	1,658,417
2014	1,225	1,170,696	1,975	1,682,260
2015 ⁽¹⁾	1,283	1,202,266	2,178	1,903,123
2016	1,251	1,297,943	2,161	1,998,669
2017	1,218	1,334,475	2,144	2,316,532

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

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

Total taxable sales during the first quarter of calendar year 2018 in the County were reported to be \$10,132,925,520 a 5.12% increase over the total taxable sales of \$9,639,404,478 reported during the first quarter of calendar year 2017. Annual figures are not yet available for calendar year 2018.

COUNTY OF SANTA CLARA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2013 through 2017 (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	29,535	22,424,642	45,310	37,621,606
2014	30,058	23,271,753	45,852	39,628,655
2015 ⁽¹⁾	20,057	23,700,907	50,573	41,231,759
2016	30,146	24,158,590	50,519	41,831,669
2017	30,263	24,862,883	50,812	42,805,399

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

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

Construction Activity

Construction activity in the City and the County for the past five years for which data is available is shown in the following tables.

CITY OF MILPITAS Building Permit Valuation For Calendar Years 2014 through 2018 (Dollars in Thousands)⁽¹⁾

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Permit Valuation</u>					
New Single-family	\$70,570.5	\$22,537.4	\$38,510.7	\$128,153.7	\$145,144.3
New Multi-family	188,133.1	61,894.8	99,729.0	106,327.3	260,595.1
Res. Alterations/Additions	<u>2,896.8</u>	<u>4,963.3</u>	<u>8,225.0</u>	<u>30,821.0</u>	<u>14,314.1</u>
Total Residential	\$261,600.4	\$89,395.50	\$146,464.70	\$265,302.0	\$420,053.5
 New Commercial	 \$9,753.0	 \$409.9	 \$37,529.3	 \$48,700.3	 \$109,077.5
New Industrial	0.0	684.9	0.0	17,616.1	0.0
New Other	26,612.1	3,224.3	1,883.8	2,110.8	\$4,121.9
Com Alterations/Additions	<u>45,753.7</u>	<u>43,976.0</u>	<u>77,342.4</u>	<u>95,341.9</u>	<u>\$93,005.6</u>
Total Nonresidential	\$82,118.8	\$47,995.0	\$116,755.6	\$163,769.1	\$206,205.0
 <u>New Dwelling Units</u>					
Single Family	170	72	135	391	415
Multiple Family	<u>1,025</u>	<u>175</u>	<u>384</u>	<u>561</u>	<u>1,168</u>
TOTAL	1,195	247	419	952	1,583

(1) Totals may not foot due to rounding.

Source: Construction Industry Research Board, Building Permit Summary.

SANTA CLARA COUNTY Building Permit Valuation For Calendar Years 2014 through 2018 (Dollars in Thousands)⁽¹⁾

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Permit Valuation</u>					
New Single-family	\$594,472.7	\$653,970.2	\$660,301.6	\$732,652.1	\$728,590.6
New Multi-family	1,196,127.8	706,781.1	564,761.0	1,760,303.9	1,098,643.3
Res. Alterations/Additions	<u>439,747.1</u>	<u>505,844.7</u>	<u>484,820.1</u>	<u>547,991.7</u>	<u>558,024.6</u>
Total Residential	\$2,230,347.6	\$1,866,596.0	\$1,709,882.7	\$3,040,947.7	\$2,385,258.0
 New Commercial	 \$818,913.3	 \$1,258,808.7	 \$2,327,643.2	 \$1,150,170.4	 \$1,962,366.5
New Industrial	10,172.2	100,301.2	44,268.9	118,567.1	32,080.0
New Other	292,113.9	533,644.5	282,966.1	303,729.1	120,557.4
Com Alterations/Additions	<u>1,534,213.1</u>	<u>1,697,046.2</u>	<u>2,072,862.8</u>	<u>1,786,849.8</u>	<u>2,017,142.3</u>
Total Nonresidential	\$2,655,412.5	\$3,589,800.6	\$4,727,741.0	\$3,359,316.3	\$4,132,146.2
 <u>New Dwelling Units</u>					
Single Family	1,602	1,710	1,608	2,022	2,011
Multiple Family	<u>8,310</u>	<u>3,906</u>	<u>3,297</u>	<u>6,629</u>	<u>6,342</u>
TOTAL	9,912	5,616	4,905	8,651	8,353

(1) Totals may not foot due to rounding.

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Milpitas Municipal Financing Authority
455 E Calaveras Blvd
Milpitas, California 95035

OPINION: \$_____ Milpitas Municipal Financing Authority
 2019 Wastewater Revenue Bonds

Members of the Authority:

We have acted as bond counsel to the Milpitas Municipal Financing Authority (the "Authority") in connection with the issuance by the Authority of its Milpitas Municipal Financing Authority 2019 Wastewater Revenue Bonds in the aggregate principal amount of \$_____ (the "Bonds"), under an Indenture of Trust dated as of November 1, 2019 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee, and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"). The Bonds are secured by Revenues as such term is defined in the Indenture, including installment payments (the "Installment Payments") made by the City of Milpitas (the "City") under an Installment Sale Agreement dated as of November 1, 2019 (the "Installment Sale Agreement") between the Authority and the City.

We have examined 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, the 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 powers agency 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 have been duly issued by the Authority and constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms.
3. The Indenture and the Installment Sale Agreement have been duly authorized, executed and delivered by the Authority and constitute legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

4. The Indenture establishes a valid lien on and security interest in the Revenues and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

5. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Installment Sale Agreement and to perform the agreements on its part contained therein. The Installment Sale Agreement has been duly approved by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms. The Installment Sale Agreement establishes a valid lien on and security interest in the Net Revenues of the Wastewater System and other funds pledged thereby for the security of the Installment Payments, in accordance with the terms of the Installment Sale Agreement.

6. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the City have covenanted in the Indenture, the Installment Sale Agreement and in other instruments relating to the Bonds to comply with each of such requirements, and the Authority and the City have full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

7. Interest on the Bonds is exempt from California personal income taxation.

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

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. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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