

TO: City Council
FROM: Jim Throop, Administrative Services Director
SUBJECT: Sewer Revenue Bond Refunding
DATE: March 20, 2012

NEEDS: For the City Council to approve a resolution authorizing the issuance and sale of 2012 Wastewater Revenue Refunding Bonds and approving related documents.

FACTS:

1. The City issued sewer bonds in 2002 to refund an outstanding issue (1994) and provide funds for sewer system improvements.
2. Low interest rates provide the City with the ability to lower the annual debt service.
3. There is no change in the length of the debt service. The refinancing will be for 20 years, which is the remaining life of the current bonds.
4. The City can use this opportunity to restructure the bond rate covenants to prepare for the proposed State Revolving Loan program.

ANALYSIS &
CONCLUSION: The City anticipates that through this refinancing there will be approximately \$1,000,000 in interest saved over the remaining 20 years. This savings, in addition to the changes in financing structure will provide the City with the ability to issue parity debt through the State's SRF program or other financing source with lower coverage and reserve requirements which will help the sewer rates.

POLICY: City Fiscal Policy – live within its means; maintain sound financial practices; maintain adequate reserves.

FISCAL
IMPACT: The savings are estimated to be approximately \$50,000-\$60,000 per year and will reduce the annual revenue requirement used to determine sewer rates.

Options:

- a. City Council approve, and/or modify, the resolution authorizing the issuance of 2012 Wastewater Revenue Refunding Bonds; or
- b. Amend, modify, or reject the above option

[PLACE ON CITY LETTERHEAD]

_____, 2012

Union Bank, N.A.
Attn: Nancy L. Yep, Vice-President
350 California Street, 11th Floor
San Francisco, CA 94104

RE: NOTICE OF CONDITIONAL REDEMPTION
City of El Paso de Robles
2002 Installment Sale Revenue Bonds (Sewer Enterprise Project)

Gentlemen:

I attach a form of Notice of Conditional Redemption (the "Notice") and request and direct that you, as the current trustee for the above captioned bonds, transmit the Notice to existing bondholders, not later than 30 days prior to April _____, 2012.

Such redemption shall be conditioned upon the issuance and delivery of refunding obligations proceeds which are currently scheduled to occur on or before April _____, 2012. To the extent proceeds of such refunding obligations are not received, Union Bank, N.A. is under no obligation to redeem such Bonds.

Very truly yours,

Michael Compton
City Treasurer

NOTICE OF CONDITIONAL REDEMPTION

City of El Paso de Robles Public Financing Authority
2002 Installment Sale Revenue Bonds (Sewer Enterprise Project)

<u>\$ Amount Outstanding</u>	<u>Maturity Date (June 1)</u>	<u>Interest Rate</u>	<u>CUSIP #*</u>
\$210,000	2012	3.500%	283665AY3
215,000	2013	3.625%	283665AZ0
225,000	2014	3.750%	283665BA4
235,000	2015	4.000%	283665BB2
240,000	2016	4.000%	283665BC0
250,000	2017	4.100%	283665BD8
260,000	2018	4.200%	283665BE6
275,000	2019	4.300%	283665BF3
285,000	2020	4.400%	283665BG1
295,000	2021	4.500%	283665BH9
310,000	2022	4.500%	283665BJ5
1,815,000	2027	4.750%	283665BK2
2,280,000	2032	5.000%	283665BL0

**Neither the City nor the Trustee shall be held responsible for the selection of use of the CUSIP number, nor is any representation made as to its correctness as shown in the Notice of Conditional Redemption. It is included solely for convenience of the Holders.*

NOTICE IS HEREBY GIVEN that the City of El Paso de Robles Public Financing Authority (the "Authority") has conditionally called for redemption on **April ____**, 2012 (the "Redemption Date"), all of the captioned 2002 Installment Sale Revenue Bonds (Sewer Enterprise Project) listed above (the "Bonds"), in the principal amount of \$6,895,000 at 100% (the "Redemption Price"), together with accrued interest to the Redemption Date. The Bonds are being conditionally called for redemption on the Redemption Date subject to the provisions of the succeeding paragraph of this notice, and pursuant to the provisions of the governing documents of the Bonds.

The Notice of Conditional Redemption and the payment of the principal of and interest on the aforesaid Bonds on the specified Redemption Date are subject to the receipt of funds in an amount sufficient to pay in full the specified redemption price of all of the Bonds on or before the Redemption Date.

In the event such funds are not received by the Redemption Date, this notice shall be null and void and of no force and effect. The Bonds delivered for redemption shall be returned to the respective owners thereof, and said Bonds shall remain outstanding as though this Notice of Conditional Redemption had not been given. Notice of a failure to receive funds, and cancellation of this redemption, shall be given by the Director of Administrative Services of the City by first class mail, postage prepaid, to any registered holders of the Bonds.

The Notice of Conditional Redemption and the payment of the principal and premium of and interest on the aforesaid Bonds on the specified Redemption Date are subject to the receipt of funds in an amount sufficient to pay in full the specified redemption price of all of the Bonds on or before the Redemption Date.

In the event such funds are not received by the Redemption Date, this notice shall be null and void and of *no force and effect*. The Bonds delivered for redemption shall be returned to the respective owners thereof, and said Bonds shall remain *outstanding* as though this Notice of Conditional Redemption had not been given. Notice of a failure to receive funds, and cancellation of this redemption, shall be given by the Director of Administrative Services of the City by first class mail, postage prepaid, to any registered holders of the Bonds.

Payment of the Redemption Price on the Bonds called for redemption will be paid only upon presentation and surrender thereof in the following manner:

As these Bonds are currently issued in book-entry form, payment of the Redemption Price on the above Bonds will automatically be paid to CEDE & CO on the Redemption Date. Bonds re payable at Union Bank, N.A., Corporate Trust Services, 120 South San Pedro Street, 4th Floor, Los Angeles, CA 90012; Phone Number 213-972-5669.

Interest on the principal amount designated to be redeemed shall cease to accrue on and after the Redemption Date.

IMPORTANT TAX NOTICE

Withholding of 28% of gross redemption proceeds of any payment made within the United States may be required by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), unless the Trustee has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the payee. **Please furnish a properly completed Form W-9 or exemption certificate or equivalent, when presenting your securities.**

Dated as of _____, 2012

By Union Bank, N.A., as Trustee

INDENTURE OF TRUST

between the

CITY OF EL PASO DE ROBLES

and

UNION BANK, N.A.,
as Trustee

Dated as of March 1, 2012

Relating to

\$ _____
City of El Paso de Robles
2012 Wastewater Revenue Refunding Bonds

TABLE OF CONTENTS

ARTICLE I. DEFINITIONS; RULES OF CONSTRUCTION..... 2

SECTION 1.01 DEFINITIONS; RULES OF CONSTRUCTION 2

SECTION 1.02 AUTHORIZATION 2

SECTION 1.03 INTERPRETATION 2

ARTICLE II. ISSUANCE OF BONDS 2

SECTION 2.01 AUTHORIZATION AND PURPOSE OF BONDS 2

SECTION 2.02 TERMS OF THE BONDS..... 2

SECTION 2.03 BOOK ENTRY SYSTEM..... 3

SECTION 2.04 FORM AND EXECUTION OF BONDS 5

SECTION 2.05 TRANSFER AND EXCHANGE OF BONDS 5

SECTION 2.06 REGISTRATION BOOKS 5

SECTION 2.07 BONDS MUTILATED, LOST, DESTROYED OR STOLEN 6

ARTICLE III. REDEMPTION OF BONDS..... 6

SECTION 3.01 TERMS OF REDEMPTION 6

SECTION 3.02 SELECTION OF BONDS FOR REDEMPTION 7

SECTION 3.03 NOTICE OF REDEMPTION 7

SECTION 3.04 PARTIAL REDEMPTION OF BONDS 7

SECTION 3.05 EFFECT OF REDEMPTION 8

ARTICLE IV. ISSUE OF BONDS; PARITY DEBT 8

SECTION 4.01 ISSUANCE OF BONDS..... 8

SECTION 4.02 DEPOSIT AND APPLICATION OF PROCEEDS..... 8

SECTION 4.03 COSTS OF ISSUANCE FUND 8

SECTION 4.04 ISSUANCE OF PARITY DEBT 8

SECTION 4.05 VALIDITY OF BONDS 9

ARTICLE V. REVENUES; FLOW OF FUNDS 9

SECTION 5.01 PLEDGE OF NET REVENUES..... 9

SECTION 5.02 RECEIPT, DEPOSIT AND APPLICATION OF NET REVENUES 9

SECTION 5.03 ESTABLISHMENT OF RATE STABILIZATION FUND 10

SECTION 5.04 INVESTMENTS 10

SECTION 5.05 VALUATION AND DISPOSITION OF INVESTMENTS..... 11

ARTICLE VI. FINANCIAL COVENANTS..... 12

SECTION 6.01 PUNCTUAL PAYMENT; COMPLIANCE WITH DOCUMENTS 12

SECTION 6.02 DISCHARGE OF CLAIMS..... 12

SECTION 6.03 OPERATION OF WASTEWATER SYSTEM IN EFFICIENT AND ECONOMICAL MANNER..... 12

SECTION 6.04 NO IMPAIRMENTS 12

SECTION 6.05 INSURANCE 13

SECTION 6.06 RECORDS AND ACCOUNTS..... 13

SECTION 6.07 RATES AND CHARGES 13

SECTION 6.08 SUPERIOR AND SUBORDINATE OBLIGATIONS..... 14

SECTION 6.09 TAX COVENANTS RELATING TO BONDS..... 14

SECTION 6.10 REFUNDING OF 2002 INSTALLMENT PAYMENTS..... 14

SECTION 6.11 CONTINUING DISCLOSURE 14

SECTION 6.12 FURTHER ASSURANCES 15

ARTICLE VII. THE TRUSTEE..... 15

SECTION 7.01 DUTIES, IMMUNITIES AND LIABILITIES OF TRUSTEE 15

SECTION 7.02	MERGER OR CONSOLIDATION	16
SECTION 7.03	RIGHTS AND LIABILITIES OF TRUSTEE	16
SECTION 7.04	RIGHT TO RELY ON DOCUMENTS.....	18
SECTION 7.05	PRESERVATION AND INSPECTION OF DOCUMENTS	18
SECTION 7.06	COMPENSATION AND INDEMNIFICATION	19
SECTION 7.07	ACCOUNTING RECORDS AND FINANCIAL STATEMENTS.....	19
ARTICLE VIII. MODIFICATION AND AMENDMENT OF THIS INDENTURE.....		19
SECTION 8.01	AMENDMENTS PERMITTED	19
SECTION 8.02	EFFECT OF SUPPLEMENTAL INDENTURE.....	20
SECTION 8.03	ENDORSEMENT OR REPLACEMENT OF BONDS AFTER AMENDMENT.....	20
SECTION 8.04	AMENDMENT BY MUTUAL CONSENT	20
SECTION 8.05	TRUSTEE’S RELIANCE.....	21
ARTICLE IX. EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS		21
SECTION 9.01	EVENTS OF DEFAULT AND ACCELERATION OF MATURITIES	21
SECTION 9.02	APPLICATION OF FUNDS UPON ACCELERATION	22
SECTION 9.03	POWER OF TRUSTEE TO CONTROL PROCEEDINGS.....	22
SECTION 9.04	LIMITATION ON OWNERS’ RIGHT TO SUE	22
SECTION 9.05	NON-WAIVER	23
SECTION 9.06	ACTIONS BY TRUSTEE AS ATTORNEY-IN-FACT.....	23
SECTION 9.07	REMEDIES NOT EXCLUSIVE	24
ARTICLE X. MISCELLANEOUS		24
SECTION 10.01	LIMITED LIABILITY OF THE CITY.....	24
SECTION 10.02	BENEFITS OF INDENTURE LIMITED TO PARTIES.....	24
SECTION 10.03	DEFEASANCE OF BONDS.....	24
SECTION 10.04	EXECUTION OF DOCUMENTS AND PROOF OF OWNERSHIP BY OWNERS.....	25
SECTION 10.05	DISQUALIFIED BONDS.....	25
SECTION 10.06	WAIVER OF PERSONAL LIABILITY	26
SECTION 10.07	DESTRUCTION OF CANCELED BONDS.....	26
SECTION 10.08	FUNDS AND ACCOUNTS.....	26
SECTION 10.09	NOTICES.....	26
SECTION 10.10	UNCLAIMED MONEYS.....	26
SECTION 10.11	EXECUTION IN SEVERAL COUNTERPARTS	27
SECTION 10.12	GOVERNING LAW.....	27
APPENDIX A:	DEFINITIONS	
APPENDIX B:	FORM OF BOND	

INDENTURE OF TRUST

This INDENTURE OF TRUST, dated as of March 1, 2012, is between the CITY OF EL PASO DE ROBLES, a general law city and municipal corporation organized and existing under the Constitution and laws of the State of California (the "City"), and UNION BANK, N.A., a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in San Francisco, California, and being qualified to accept and administer the trusts hereby created (the "Trustee").

B A C K G R O U N D

1. The City owns and operates a public enterprise for the collection of wastewater within the service area of the City (the "Wastewater System"), and which Wastewater System was financed in part by the execution and delivery of the City of El Paso de Robles Public Financing Authority (the "Authority") 2002 Installment Sale Revenue Bonds (the "2002 Bonds").

2. The 2002 Installment Payments have been pledged by the Authority to the payment of debt service on its outstanding 2002 Bonds issued by the Authority in the aggregate principal amount of \$11,550,000 and presently outstanding in the amount of \$6,895,000.

3. Under Section 10.02 of the 2002 Indenture of Trust dated December 1, 2002 (the "2002 Indenture"), the Authority currently has the right to prepay the 2002 Installment Payments on any date, and under Section 10.03(b) of the 2002 Installment Sale Agreement, the Authority has the right to secure the payment and prepayment of the 2002 Installment Payments with an irrevocable deposit of funds which has the effect of discharging the Authority's obligations under the 2002 Installment Sale Agreement.

4. The City wishes at this time to make such deposit of funds for the purpose of paying and prepaying the 2002 Installment Payments and thereby discharging the Authority's obligations under the 2002 Installment Sale Agreement, and in order to provide funds for that purpose the City Council of the City has authorized the issuance of the City of El Paso de Robles 2012 Wastewater Revenue Refunding Bonds in the aggregate principal amount of \$_____ (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law").

5. The Bonds will be secured by a pledge of and lien on the Net Revenues derived by the City from the operation of the Wastewater System.

6. In order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof and of the interest and premium, if any, thereon, the City Council of the City has authorized the execution of this Indenture.

A G R E E M E N T :

In order to secure the payment of the principal of and the interest on all the Bonds under this Indenture according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the City and the Trustee hereby covenant and agree with one another, for the benefit of the respective Owners from time to time of the Bonds, as follows:

ARTICLE I.
DEFINITIONS; RULES OF CONSTRUCTION

Section 1.01 Definitions; Rules of Construction

Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms defined in Appendix A attached to this Indenture have the respective meanings specified in Appendix A when used in this Indenture.

Section 1.02 Authorization

Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Indenture, and has taken all actions necessary to authorize the execution hereof by the officers and persons signing it.

Section 1.03 Interpretation

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

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

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

ARTICLE II.
ISSUANCE OF BONDS

Section 2.01 Authorization and Purpose of Bonds

The City has reviewed all proceedings heretofore taken and has found, as a result of such review, and hereby finds and determines that all things, conditions and acts required by law to exist, happen or be performed precedent to and in connection with the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the City is now duly empowered, under each and every requirement of law, to issue the Bonds in the manner and form provided in this Indenture.

The City hereby authorizes the execution and delivery of Bonds in the aggregate principal amount of \$_____ under the Bond Law for the purposes of providing funds to pay and prepay the 2002 Installment Payments, and thereby discharge the City's obligations under the 2002 Installment Sale Agreement. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Bond Law. The Bonds are designated the "City of El Paso de Robles 2012 Wastewater Revenue Refunding Bonds".

Section 2.02 Terms of the Bonds

The Bonds are issuable in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Bond has more than one maturity date. The Bonds will be dated as of the Closing Date, and will mature on June 1 in the years and in the respective principal amounts and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the respective rates per annum, as set forth in the following table:

INDENTURE OF TRUST
CITY OF EL PASO DE ROBLES

Maturity Date (June 1)	Principal Amount	Interest Rate	Maturity Date (June 1)	Principal Amount	Interest Rate
2013			2023		
2014			2024		
2015			2025		
2016			2026		
2017			2027		
2018			2028		
2019			2029		
2020			2030		
2021			2031		
2022			2032		

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

Section 2.03 Book Entry System

(a) Original Delivery. The Bonds will be initially delivered in the form of a separate single fully registered bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the Trustee shall register the ownership of each Bond on the Registration Books in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on the Registration Books.

With respect to Bonds the ownership of which is registered in the name of the Nominee, the City and the Trustee have no responsibility or obligation to any Depository System Participant or to any person on behalf of which the Nominee holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, neither the City nor the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed if the City elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest on the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The City and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal of and premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the City to make payments of principal, interest and premium, if any, under this Indenture. Upon delivery by the Depository to the City of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the City shall promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the City shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the City or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. Upon the written acceptance by the Trustee, the Trustee shall agree to take all action reasonably necessary for all representations of the Trustee in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, the City may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. If either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the City determines to terminate the Depository as such, then the City shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the City and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the City fails to identify another Securities Depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions hereof.

If the City determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the City may notify the Depository System Participants of the availability of such certificated Bonds through the Depository. In such event, the Trustee will issue, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the City shall cooperate with the Depository in taking appropriate action (i) to make available one or more separate certificates evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository,

or (ii) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Bonds, all at the City's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section 2.03 or as otherwise instructed by the Depository.

Section 2.04 Form and Execution of Bonds

The Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, are set forth in Appendix B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

The Mayor of the City shall execute, and the City Clerk of the City shall attest each Bond. Either or both of such signatures may be made manually or may be affixed by facsimile thereof. If any officer whose signature appears on any Bond ceases to be such officer before the Closing Date, such signature will nevertheless be as effective as if the officer had remained in office until the Closing Date. Any Bond may be signed and attested on behalf of the City by such persons as at the actual date of the execution of such Bond are the proper officers of the City, duly authorized to execute debt instruments on behalf of the City, although on the date of such Bond any such person was not an officer of the City.

Only those Bonds bearing a certificate of authentication in the form set forth in Appendix B, manually executed and dated by the Trustee, are valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee is conclusive evidence that such Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Section 2.05 Transfer and Exchange of Bonds

(a) Transfer. Any Bond may, in accordance with its terms, be transferred, upon the 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 Bond to the Trustee at its 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 Bonds under this Section 2.05. Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The City shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

(b) Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 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 Bonds under this subsection (b). The City shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

Section 2.06 Registration Books

The Trustee will keep or cause to be kept, at its Office, sufficient records for the registration and registration of transfer of the Bonds, which must at all times during normal business hours, and upon reasonable notice, be open to inspection by the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Bonds as hereinbefore provided.

Section 2.07 Bonds Mutilated, Lost, Destroyed or Stolen

If any Bond is mutilated, the City, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. The Trustee shall cancel every mutilated Bond surrendered to it and deliver such mutilated Bond to, or upon the order of, the City. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory and if indemnity satisfactory to the Trustee is given, the City, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section 2.07 and of the expenses which may be incurred by the Trustee in connection therewith. Any Bond issued under the provisions of this Section 2.07 in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds issued under this Indenture.

Notwithstanding any other provision of this Section 2.07, in lieu of delivering a new Bond for which principal has become due for a Bond which has been mutilated, lost, destroyed or stolen, the Trustee may make payment of such Bond in accordance with its terms upon receipt of indemnity satisfactory to the Trustee.

ARTICLE III.
REDEMPTION OF BONDS

Section 3.01 Terms of Redemption

(a) Optional Redemption. The Bonds maturing on or after June 1, 2023, are subject to optional redemption without premium in whole or in part on any date, on or after June 1, 2022, together with interest accrued and unpaid to the date fixed for redemption, from the proceeds of optional prepayments made by the City pursuant to this Indenture.

(b) Mandatory Redemption From Sinking Fund Payments. Bonds maturing on June 1, 20__ (the "20__ Term Bonds") and June 1, 20__ (the "20__ Term Bonds") (collectively, the "Term Bonds") shall also be subject to mandatory prepayment in part, by lot, on June 1 in each year commencing June 1, 20__ (as to the 20__ Term Bonds) and June 1, 20__ (as to the 20__ Term Bonds) from payments made by the City pursuant to this Indenture at a prepayment price equal to the principal amount evidenced thereby to be prepaid, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following tables; provided, however, that if some but not all of such 20__ Term Bonds and 20__ Term Bonds, respectively, have been prepaid pursuant to the preceding paragraph or the succeeding paragraph the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such 20__ Term Bonds and 20__ Term Bonds so prepaid, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000, as determined by the City.

Bonds Maturing June 1, 20__

Sinking Fund Prepayment Date (June 1)	Principal Amount of Term Bonds to be Prepaid

Bonds Maturing June 1, 20__

Sinking Fund Prepayment Date (June 1)	Principal Amount of Term Bonds to be Prepaid
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Section 3.02 Selection of Bonds for Redemption

Whenever provision is made in this Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption, in such order of maturity as shall be selected by the City and by lot within a maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

Section 3.03 Notice of Redemption

Notice of redemption shall be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, and to the Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and Bond numbers of the Bonds to be redeemed, the maturity or maturities of the Bonds to be redeemed and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the City.

Any such redemption notice may specify that redemption on the specified date will be subject to receipt by the City of moneys sufficient to cause such redemption (and shall specify the proposed source of such moneys) and neither the City nor the Paying Agent shall have any liability to Owners or any other party as a result of its failure to redeem the Bonds as a result of insufficient moneys. The City shall have the right to rescind any redemption by written notice to the Paying Agent 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 Bonds then called for redemption, and such cancellation shall not constitute a default hereunder. The Paying Agent shall mail notice or rescission of redemption in the same manner notice of redemption was originally provided.

Section 3.04 Partial Redemption of Bonds

If any substantial part of the Wastewater System is sold, the payment therefor must either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied to redeem any Bonds or Parity Debt in accordance with the provisions of this Indenture or related Parity Debt Documents.

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

Section 3.05 Effect of Redemption

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

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

ARTICLE IV.
ISSUE OF BONDS; PARITY DEBT

Section 4.01 Issuance of Bonds

Upon the execution and delivery of this Indenture, the City shall execute and deliver Bonds in the aggregate principal amount of \$_____ to the Trustee and the Trustee shall authenticate and deliver the Bonds to the Original Purchaser upon receipt of a Request of the City therefor.

Section 4.02 Deposit and Application of Proceeds

On the Closing Date, the Trustee shall receive \$_____ and apply the proceeds of the Bonds as follows:

- (a) The Trustee shall deposit the amount of \$_____ to the Costs of Issuance Fund.
- (b) The Trustee shall transfer the amount of \$_____, constituting the remainder of the Bond proceeds, to Union Bank, N.A., as Trustee for the 2002 Bonds, for deposit in the Redemption Fund for 2002 Bonds to be applied by the Trustee to the full redemption on April __, 2012, of all outstanding 2002 Installment Sale Revenue Bonds.

Section 4.03 Costs of Issuance Fund

There is hereby established a separate fund to be known as the "Costs of Issuance Fund", to be held by the Trustee in trust. The Trustee shall disburse moneys in the Costs of Issuance Fund from time to time to pay Costs of Issuance upon submission of a Request of the City stating (a) the person to whom payment is to be made, (b) the amounts to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the Costs of Issuance Fund, and (e) that such amounts have not been the subject of a prior Request of the City; in each case together with a statement or invoice for each amount requested thereunder. On August 1, 2012, the Trustee shall transfer any amounts remaining in the Costs of Issuance Fund to the Debt Service Fund to be applied to pay a portion of the interest next coming due and payable on the Bonds.

Section 4.04 Issuance of Parity Debt

The City may issue Parity Debt in such principal amount as it determines, subject to the following conditions precedent:

- (a) No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) has occurred and is continuing.
- (b) The amount of Net Revenues, excluding connection fees, as shown by the books of the City for the most recent completed Fiscal Year for which audited financial statements of the City are available or for any more recent consecutive 12-month period selected by the City, in either case verified by an Accountant or a Financial Consultant or shown in the audited financial statements of the City, plus at the option of the City any Additional Revenues, are at least equal to 110% of the amount of Maximum Annual Debt Service coming due and payable in the current or any future Fiscal Year with respect to the Bonds and all Parity Debt then outstanding (including the Parity Debt then proposed to be issued); and
- (c) The City shall deliver to the Trustee a Certificate of the City certifying, and an opinion of Bond Counsel stating, that the conditions precedent to the issuance of such Parity Debt set forth in the foregoing subsections of this Section 4.04 have been satisfied.

Section 4.05 Validity of Bonds

The recital contained in the Bonds that they are issued under the Laws of the State of California is conclusive evidence of their validity and of the regularity of their issuance.

ARTICLE V.
REVENUES; FLOW OF FUNDS

Section 5.01 Pledge of Net Revenues

The Bonds are secured by a first pledge of and lien on all of the Net Revenues. In addition, the Bonds are secured by a pledge of all of the moneys in the Debt Service Fund, including all amounts derived from the investment of such moneys. The Bonds and any Parity Debt are equally secured by a pledge, charge and lien upon the Net Revenues and such moneys without priority for series, issue, number or date and the payment of the interest on and principal of the Bonds shall be and are secured by an exclusive pledge, charge and lien upon the and such moneys. So long as any of the Bonds are Outstanding, the Net Revenues and such moneys may not be used for any other purpose; except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by Section 5.02.

Section 5.02 Receipt, Deposit and Application of Net Revenues

(a) Establishment and Maintenance of Wastewater Fund. The City has previously established the Wastewater Fund, which it will continue to hold and maintain for the purposes and uses set forth herein. The City shall deposit all Gross Revenues in the Wastewater Fund promptly upon the receipt thereof, and shall apply amounts in the Wastewater Fund solely for the uses and purposes set forth herein and for the uses and purposes set forth in any Parity Debt Documents.

(b) Application of Amounts in Wastewater Fund. In addition to transfers which are required to be made for repayment of any Parity Debt, the City shall withdraw amounts on deposit in the Wastewater Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

- (i) *Operation and Maintenance Costs.* The City shall apply amounts on deposit in the Wastewater Fund to pay all Operation and Maintenance Costs when due.

- (ii) *Debt Service Fund.* On or before the 3rd Business Day preceding each Interest Payment Date, so long as any Bonds remain Outstanding, the City shall withdraw from the Wastewater Fund and pay to the Trustee for deposit into the Debt Service Fund (which the Trustee shall establish and hold in trust hereunder) an amount which, together with other available amounts then on deposit in the Debt Service Fund, is at least equal to the aggregate amount of principal of and interest coming due and payable on the Bonds on such Interest Payment Date.

The Trustee shall apply amounts in the Debt Service Fund solely for the purpose of (A) paying the interest on the Outstanding Bonds when due and payable, and (B) paying the principal of the Bonds at the maturity thereof, including any sinking fund maturity. Upon the payment of all Outstanding Bonds, the Trustee shall transfer any moneys remaining in the Debt Service Fund to the City for deposit into the Wastewater Fund.

(c) Other Uses of Wastewater Fund. The City shall manage, conserve and apply moneys in the Wastewater Fund in such a manner that all deposits required to be made under this Section 5.02 and under any Parity Debt Documents will be made at the times and in the amounts so required.

So long as no Event of Default has occurred and is continuing, the City may at any time use and apply moneys in the Wastewater Fund for any one or more of the following purposes:

- (i) the payment of any subordinate obligations or any unsecured obligations;
- (ii) the acquisition and construction of extensions and improvements to the Wastewater System;
- (iii) the redemption of any obligations of the City relating to the Wastewater System; or
- (iv) any other lawful purpose of the City relating to the Wastewater System.

Section 5.03 Establishment of Rate Stabilization Fund

The City has the right at any time to establish a fund to be held by it and administered in accordance with this Section 5.03, 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 which are released from the pledge and lien which secures the Bonds 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 shall constitute Gross Revenues for such Fiscal Year (except as otherwise provided herein), and shall be applied for the purposes of the Wastewater Fund. Amounts on deposit in a Rate Stabilization Fund shall not be pledged to or otherwise secure the Bonds or any Parity Debt. All interest or other earnings on deposit in a Rate Stabilization Fund shall 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.

Section 5.04 Investments

(a) Investment of Funds Held by City. All moneys in the Wastewater Fund and the Rate Stabilization Fund shall be invested by the City from time to time in any securities in which the City may legally invest funds subject to its control.

(b) Investment of Funds Held by Trustee. The Trustee shall invest moneys in the funds and accounts held by it hereunder in Permitted Investments which will be available on or before the dates when such moneys are needed, as specified in the Request of the City delivered to the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such direction from the City, the Trustee shall invest any such moneys solely in Permitted Investments described in clause (e) of the definition thereof.

(c) General Investment Provisions. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account. Whenever in this Indenture the City is required to transfer any moneys to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee hereunder shall be retained in the respective fund or account from which such investment was made. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder upon receipt by the Trustee of the Request of the City. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee has no liability for losses arising from any investments made under this Section.

The Trustee shall furnish the City periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the City. Upon the City's election, such statements will be delivered via the Trustee's Online Trust and Custody service and upon electing such service, paper statements will be delivered via the Trustee's Online Trust and Custody service and upon electing such service, paper statements will be provided only upon request. The City waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The City further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

Section 5.05 Valuation and Disposition of Investments

(a) Except as otherwise provided in subsection (b) of this Section 5.05, the City covenants that all investments of amounts deposited in any fund or account created by or under this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by this Indenture or the Tax Code) at Fair Market Value as such term is defined in subsection (d) below. The Trustee has no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the City in any Certificate or Request of the City.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code and investments in the Reserve Fund shall be valued at cost thereof (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the City must inform the Trustee which funds are subject to a yield restriction, and must provide the Trustee with any necessary valuation criteria or formulae.

(c) Except as provided in the proceeding subsection (b), for the purpose of determining the amount in any fund, the Trustee shall value Permitted Investments credited to such fund at least annually at the Fair Market Value thereof. The Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system. If and as directed by the City in writing, the Trustee shall sell or present for redemption any Permitted Investment so purchased by the Trustee whenever it is necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee has no liability or responsibility for any loss resulting therefrom.

(d) For purposes of this Section 5.05, the term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

ARTICLE VI. FINANCIAL COVENANTS

Section 6.01 Punctual Payment; Compliance With Documents

The City shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the Bonds in strict conformity with the terms of the Bonds and of this Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Supplemental Indentures.

Section 6.02 Discharge of Claims

The City covenants that in order to fully preserve and protect the priority and security of the Bonds the City shall pay from the Net Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Wastewater System which, if unpaid, may become a lien or charge upon the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City shall also pay, from the Net Revenues, all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Wastewater System or upon any part thereof or upon any of the Net Revenues therefrom.

Section 6.03 Operation of Wastewater System in Efficient and Economical Manner

The City covenants and agrees to operate the Wastewater System in an efficient and economical manner and to operate, maintain and preserve the Wastewater System in good repair and working order.

Section 6.04 No Impairments

Except as provided herein, the City covenants that the Wastewater System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise dispose of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the City to pay the principal of or interest on the Bonds or any Parity Debt, or would materially adversely affect its ability to comply with the terms of this Indenture or any Parity Debt Documents. The City may not enter into any agreement which impairs the operation of the Wastewater System or any part of it necessary to secure adequate Net Revenues to pay the Bonds and any Parity Debt, or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues.

If any substantial part of the Wastewater System is sold, the payment therefor must either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied to redeem any Bonds or Parity Debt in accordance with the provisions of this Indenture or related Parity Debt Documents.

Any amounts received as awards as a result of the taking of all or any part of the Wastewater System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the

City, shall either (a) be used for the acquisition or construction of improvements and extension of the Wastewater System, or (b) be applied to redeem any Bonds or Parity Debt in accordance with the provisions of this Indenture or related Parity Debt Documents.

Section 6.05 Insurance

The City will at all times maintain with responsible insurers all 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 the Wastewater System. If any useful part of the Wastewater System is damaged or destroyed, such part must be restored to usable condition. 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 the Bonds or any Parity Debt in accordance with the related Parity Debt Documents. The City shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City, the Trustee and the Owners of the Bonds. The Trustee has no liability to determine whether the City is in compliance with the provisions of this Section 6.05.

Section 6.06 Records and Accounts

The City will keep proper books of record and accounts of the Wastewater System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Wastewater System. Said books shall, upon reasonable request, be subject to the inspection of the Trustee and the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

The City shall cause the books and accounts of the Wastewater System to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant.

Section 6.07 Rates and Charges

The City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues (excluding any amounts transferred from a Rate Stabilization Fund) sufficient to pay the following amounts in the following order of priority:

- (a) All Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;
- (b) The principal of and interest on the Bonds and any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such interest is payable from proceeds of Parity Debt deposited for such purpose; and
- (c) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 110% of the amount described in the preceding clause (b) for such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (a) any transfers into the Wastewater Fund in such Fiscal Year from the Rate Stabilization Fund shall be limited to ten percent (10%) of the amount of Debt Service, which shall be included in the calculation of Net Revenues, as provided in Section 5.03, and

(b) any deposits into the Rate Stabilization Fund in such Fiscal Year are deducted from the amount of Net Revenues to the extent such deposits are made from Gross Revenues received by the City during that Fiscal Year.

Section 6.08 Superior and Subordinate Obligations

The City may not issue or incur any additional bonds or other obligations having any priority in payment of principal or interest out of the Net Revenues over the Bonds. Nothing herein limits or affects the ability of the City to issue or incur (a) Parity Debt, or (b) obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established hereunder.

Section 6.09 Tax Covenants Relating to Bonds

(a) Generally. The City shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, interest on the Bonds to become includable in gross income for federal income tax purposes.

(b) Private Activity Bond Limitation. The City shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to become “private activity bonds” within the meaning of section 141(a) of the Tax Code or to meet the private loan financing test of Section 141(c) of the Tax Code.

(c) Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

(d) No Arbitrage. The City shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Tax Code.

(e) Rebate of Excess Investment Earnings. The City shall calculate or cause to be calculated all amounts of excess investment earnings with respect to the Bonds which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code. The City shall pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any source of legally available funds of the City. The City shall keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Bonds, records of the determinations made under this subsection (e).

The Trustee has no duty to monitor the compliance by the City with any of the covenants contained in this Section 5.09.

Section 6.10 Refunding of 2002 Installment Payments

The City shall cause the proceeds of the Bonds to be applied to the payment and prepayment of the 2002 Installment Payments in accordance with the provisions of the 2002 Installment Sale Agreement. From and after the Closing Date, the City’s obligations under the 2002 Installment Sale Agreement shall be fully discharged, and the 2002 Installment Payments shall no longer be secured by a pledge of or lien on the Net Revenues.

Section 6.11 Continuing Disclosure

The City will comply with and carry out all of the provisions of the Continuing Disclosure Certificate which has been executed and delivered by the City on the Closing Date. Notwithstanding any other provision hereof, failure

of the City to comply with the Continuing Disclosure Certificate does not constitute an Event of Default hereunder; *provided, however*, that any Participating Underwriter (as such term is defined in the Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City to comply with its obligations under this Section 6.11.

Section 6.12 Further Assurances

The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds and the Trustee the rights and benefits provided in this Indenture.

ARTICLE VII.
THE TRUSTEE

Section 7.01 Duties, Immunities and Liabilities of Trustee

(a) Performance of Duties. The Trustee shall, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or duties will be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonable corporate trustee would exercise or use.

(b) Removal of Trustee. The City may remove the Trustee at any time, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (ii) if at any time the Trustee ceases to be eligible in accordance with subsection (e) of this Section 7.01, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. The City may accomplish such removal by giving 30 days written notice to the Trustee, whereupon the City will appoint a successor Trustee by an instrument in writing.

(c) Resignation by Trustee. The Trustee may at any time resign by giving written notice of such resignation to the City, and by giving notice of such resignation by first class mail, postage prepaid, to the Bond Owners at their respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the City will promptly appoint a successor Trustee by an instrument in writing.

(d) Appointment of Successor Trustee. Any removal or resignation of the Trustee and appointment of a successor Trustee becomes effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and accepted appointment within 45 days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, any Owner (on behalf of such Owner and all other Owners) may petition any federal or state court for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee hereunder, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless, upon the receipt by the predecessor Trustee of the Request of the City or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all

instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the City will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the City shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts hereunder to each rating agency which then maintains a rating on the Bonds, and to the Owners at the addresses shown on the Registration Books. If the City fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the City.

(e) Qualifications of Trustee. Any Trustee appointed under the provisions of this Section 7.01 in succession to the Trustee must:

- (i) be a company or bank having trust powers,
- (ii) have a corporate trust office in the State of California,
- (iii) have (or be part of a bank holding company system whose bank holding company has) a combined capital and surplus of at least \$75,000,000, and
- (iv) be subject to supervision or examination by federal or state authority.

If such bank or company publishes a report of condition at least annually, under law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in subsection (c) of this Section 7.01.

The City will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this subsection (e), so long as any Bonds are Outstanding.

Section 7.02 Merger or Consolidation

Any bank or company into which the Trustee may be merged or converted or with which either of them may be consolidated or any bank or company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or company shall be eligible under subsection (e) of Section 7.01, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 7.03 Rights and Liabilities of Trustee

(a) The recitals of facts herein and in the Bonds contained are taken as statements of the City, and the Trustee has no responsibility for the correctness of the same, nor does it have any liability whatsoever therefor, nor make any representations as to the validity or sufficiency of this Indenture or of the Bonds nor shall it incur any responsibility in respect thereof, other than as expressly stated herein. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee is not liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee is not

liable for the acts of any agents of the Trustee selected by it with due care. The Trustee may become the Owner of any Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. The Trustee, either as principal or agent, may engage in or be entrusted in any financial or other transaction with the City.

(b) The Trustee has no liability with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(c) The Trustee has no liability for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture, except for actions arising from the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated hereunder is not construed as a mandatory duty.

(d) The Trustee will not be deemed to have knowledge of any Event of Default hereunder unless and until a responsible officer of the Trustee has actual knowledge thereof, or unless and until a responsible officer of the Trustee has received written notice thereof at its Office. Except as otherwise expressly provided herein, the Trustee is not bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default hereunder or thereunder. The Trustee is not responsible for the City's payment of principal and interest on the Bonds, the City's observance or performance of any other covenants, conditions or terms contained herein, or the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, and notwithstanding anything herein to the contrary, the Trustee is not responsible for reviewing the contents of any financial statements furnished to the Trustee under Section 6.06 and may rely conclusively on a Certificate of the City (if any) to establish the City's compliance with its financial covenants hereunder, including, without limitation, its covenants regarding the deposit of Gross Revenues into the Wastewater Fund and the investment and application of moneys on deposit in the Wastewater Fund (other than its covenants to transfer such moneys to the Trustee when due hereunder).

(e) No provision in this Indenture requires the Trustee to risk or expend its own funds or otherwise incur any financial liability hereunder. The Trustee is entitled to receive interest on any moneys advanced by it hereunder, at the maximum rate permitted by law.

(f) The Trustee may establish additional accounts or subaccounts of the funds established hereunder as the Trustee deems necessary or prudent in furtherance of its duties under this Indenture.

(g) The Trustee has no responsibility or liability whatsoever with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds, nor shall the Trustee have any obligation to review any such material, and any such review by the Trustee will not be deemed to create any obligation, duty or liability on the part of the Trustee.

(h) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, have the right (but not the duty) fully to inspect the Wastewater System, including all books, papers and records of the City pertaining to the Wastewater System and the Bonds, and to take such memoranda from and with regard thereto as may be desired but which is not privileged by statute or by law.

(i) Before taking any action under Article VII the Trustee may require indemnity satisfactory to the Trustee be furnished to it to hold the Trustee harmless from any expenses whatsoever and to protect it against any liability it may incur hereunder.

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

(k) The permissive right of the Trustee to do things enumerated in this Indenture is not construed as a duty.

(l) The Trustee may execute any of the trusts or powers hereof and perform any of its duties through attorneys, agents and receivers and is not answerable for the conduct of the same if appointed by it with reasonable care.

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

Section 7.04 Right to Rely on Documents

The Trustee is protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, including, without limitation, Bond Counsel or other counsel of or to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee hereunder in accordance therewith.

The Trustee is not bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and such person's title thereto is established to the satisfaction of the Trustee.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the City, which shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may (but has no duty to), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable. The Trustee may conclusively rely on any certificate or report of any Independent Accountant appointed by the City.

The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions under this Indenture provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee has received a current incumbency certificate containing the specimen signature of such designated person

Section 7.05 Preservation and Inspection of Documents

All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject during normal business hours, and upon reasonable prior written notice, to the inspection of the City and any Owner, and their agents and representatives duly authorized in writing.

Section 7.06 Compensation and Indemnification

Absent any agreement to the contrary, the City shall pay to the Trustee from time to time compensation for all services rendered under this Indenture and also all expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including any allocated costs of internal counsel), agents and employees, incurred in and about the performance of its powers and duties under this Indenture. The Trustee has a first lien on the Net Revenues and all funds and accounts held by the Trustee hereunder to secure the payment to the Trustee of all fees, costs and expenses, including compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in Article IX.

The City further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities, whether or not litigated, which it may incur arising out of or in the exercise and performance of its powers and duties hereunder, including the costs and expenses of defending against any claim of liability and of enforcing any remedies hereunder and under any related documents, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. The obligations of the City under this Section 7.06 shall survive resignation or removal of the Trustee under this Indenture and payment of the Bonds and discharge of this Indenture.

Section 7.07 Accounting Records and Financial Statements

The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds and all funds and accounts established and held by the Trustee under this Indenture. Such books of record and account shall be available for inspection by the City at reasonable hours, during regular business hours, with reasonable prior notice and under reasonable circumstances. The Trustee shall furnish to the City, at least semiannually, an accounting (which may be in the form of its customary statements) of all transactions relating to the proceeds of the Bonds and all funds and accounts held by the Trustee under this Indenture.

ARTICLE VIII.
MODIFICATION AND AMENDMENT OF THIS INDENTURE

Section 8.01 Amendments Permitted

(a) Amendment With Bond Owner Consent. This Indenture and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended by the City and the Trustee upon Request of the City at any time by the execution of a Supplemental Indenture, but only with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding with respect to all Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 10.05. Any such Supplemental Indenture becomes effective upon the execution and delivery thereof by the parties thereto and upon consent of the requisite Bond Owners. No such modification or amendment may:

- (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the City to pay the principal thereof or interest thereon at the time and place and at the rate and in the currency provided therein, without the written consent of the Owner of such Bond, or
- (ii) permit the creation by the City of any mortgage, pledge or lien upon the Gross Revenues or the Net Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by this Indenture), or reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or

(iii) modify any of the rights or obligations of the Trustee without its written consent.

(b) Amendment Without Bond Owner Consent. This Indenture and the rights and obligations of the City and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Owners of the Bonds, for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the City contained in this Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;
- (ii) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in this Indenture, or in any other respect whatsoever as the City deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel filed with the City and the Trustee;
- (iii) to provide for the issuance of Parity Debt under Section 4.04, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of Section 4.04; and
- (iv) to amend any provision hereof to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes under the Tax Code, in the opinion of Bond Counsel filed with the City and the Trustee.

(c) Notice of Amendments. The City shall deliver or cause to be delivered a draft of any Supplemental Indenture to S&P, at least ten (10) days prior to the effective date of such Supplemental Indenture under this Section 8.01.

Section 8.02 Effect of Supplemental Indenture

From and after the time any Supplemental Indenture becomes effective under this Article VIII, this Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 8.03 Endorsement or Replacement of Bonds After Amendment

After the effective date of any amendment or modification hereof under this Article VIII, the City may determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the City, as to such amendment or modification and in that case upon demand of the City the Owners of such Bonds shall present such Bonds for that purpose at the Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the City may determine that new Bonds shall be prepared and executed in exchange for any or all of the Bonds and in that case upon demand of the City the Owners of the Bonds shall present such Bonds for exchange at the Office of the Trustee without cost to such Owners.

Section 8.04 Amendment by Mutual Consent

The provisions of this Article VII shall not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner.

Section 8.05 Trustee's Reliance

The Trustee may conclusively rely, and is protected in relying, upon a Certificate of the City and an opinion of counsel stating that all requirements of this Indenture relating to the amendment or modification hereof have been satisfied and that such amendments or modifications do not materially adversely affect the interests of the Owners.

ARTICLE IX.
EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Section 9.01 Events of Default and Acceleration of Maturities

Each of the following events constitutes an Event of Default hereunder:

- (a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for acceleration or otherwise.
- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the City to observe and perform any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such failure has continued for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the City by the Trustee; *provided, however*, if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 60-day period, such failure shall not constitute an Event of Default if the City institutes corrective action within such 60-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (d) The City commences a voluntary case under Title 11 of the United States Code or any substitute or successor statute.
- (e) The occurrence and continuation of an event of default under and as defined in any Parity Debt Documents.

If an Event of Default occurs and is continuing, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding, and (b) subject to the provisions of Section 9.06, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity to enforce the rights of the Bond Owners under this Indenture.

Immediately upon obtaining actual knowledge of the occurrence of an Event of Default, but in no event later than five (5) Business Days following obtaining actual knowledge of such occurrence, the Trustee shall give notice of such Event of Default to the City in writing. Such notice shall also state whether the principal of the Bonds has been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Bond Owners by first-class mail at their respective addresses set forth on the Registration Books, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee declares the Bonds to become due and payable under the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest at an interest rate of 10% per annum, and the reasonable fees and expenses of the Trustee, including fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Section 9.02 Application of Funds Upon Acceleration

All amounts received by the Trustee under any right given or action taken by the Trustee under the provisions of this Indenture shall be applied by the Trustee as follows and in the following order:

- (a) *First*, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under this Indenture and the payment of all fees, costs and expenses owing to the Trustee under Section 7.06, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law.
- (b) *Second*, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

Section 9.03 Power of Trustee to Control Proceedings

If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties hereunder, whether upon its own discretion, upon the request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action. The Trustee may not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Section 9.04 Limitation on Owners' Right to Sue

No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless:

- (a) said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;
- (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name;
- (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and
- (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy hereunder; it being understood and intended that no one or more Owners has any right in any manner whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and premium, if any, and interest on such Bond as herein provided, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section 9.04 or any other provision of this Indenture.

Section 9.05 Non-Waiver

Nothing in this Article IX or in any other provision of this Indenture or in the Bonds, affects or impairs the obligation of the City, which is absolute and unconditional, to pay from the Net Revenues and other amounts pledged hereunder, the principal of and interest on the Bonds to the Bond Owners when due and payable as herein provided, or affects or impairs the right of action, which is also absolute and unconditional, of the Bond Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Owner shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Bond Law or by this Article IX may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the City and the Owners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Section 9.06 Actions by Trustee as Attorney-In-Fact

Any suit, action or proceeding which any Owner has the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is hereby appointed (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, subject to the provisions of Article VII. Notwithstanding the foregoing provisions of this Section 9.06, the Trustee has no duty to enforce any such right or remedy unless it has been indemnified to its satisfaction for

any additional fees, charges and expenses of the Trustee related thereto, including without limitation, fees and charges of its attorneys and advisors.

Section 9.07 Remedies Not Exclusive

No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Bond Law or any other law.

ARTICLE X.
MISCELLANEOUS

Section 10.01 Limited Liability of the City

Notwithstanding anything in this Indenture contained, the City is not required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or for the performance of any covenants herein contained (except to the extent any such covenants are expressly payable hereunder from the Net Revenues). The City may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the City for such purpose without incurring indebtedness.

The Bonds are revenue bonds, payable exclusively from the Net Revenues and other funds as in this Indenture provided. The Wastewater Fund of the City is not liable, and the credit of the City is not pledged, for the payment of the interest on or principal of the Bonds. The Owners of the Bonds have no right to compel the forfeiture of any property of the City. The principal of and interest on the Bonds are not a debt of the City, or a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or upon any of its income, receipts or revenues except the Net Revenues and other funds pledged to the payment thereof as provided in this Indenture.

Section 10.02 Benefits of Indenture Limited to Parties

Nothing in this Indenture, expressed or implied, gives to any person other than the City and the Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture. Any covenants, stipulations, promises or agreements in this Indenture contained by and on behalf of the City shall be for the sole and exclusive benefit of the Trustee and the Owners of the Bonds.

Section 10.03 Defeasance of Bonds

If the City pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;
- (b) by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under this Indenture, is fully sufficient to pay such Bonds, including all principal thereof and interest thereon;
- (c) by irrevocably depositing with the Trustee or an escrow bank, in trust, Federal Securities in such amount as an Independent Accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts

established under this Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal thereof and interest thereon; or

- (d) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

then, at the election of the City, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Net Revenues and other funds provided for in this Indenture and all other obligations of the Trustee and the City under this Indenture with respect to such Bonds shall cease and terminate, except only:

- (a) the obligations of the City under Section 6.11,
- (b) the obligation of the Trustee to transfer and exchange Bonds hereunder,
- (c) the obligation of the City to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and
- (d) the obligations of the City to compensate and indemnify the Trustee under Section 7.06.

The City must file notice of such election with the Trustee. The Trustee shall pay any funds thereafter held by it, which are not required for said purpose, to the City.

In the case of a defeasance or payment of all of the Bonds Outstanding in accordance with this Section 10.03, the Trustee shall pay all amounts held by it in any funds or accounts hereunder, which are not required for said purpose or for payment of amounts due the Trustee under Section 7.06, to the City.

Section 10.04 Execution of Documents and Proof of Ownership by Owners

Any request, consent, declaration or other instrument which this Indenture may require or permit to be executed by any Owner may be in one or more instruments of similar tenor, and shall be executed by such Owner in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his attorney of such request, consent, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

The ownership of Bonds and the amount, maturity, number and date of ownership thereof are conclusively proved by the Registration Books.

Any request, declaration or other instrument or writing of the Owner of any Bond binds all future Owners of such Bond in respect of anything done or suffered to be done by the City or the Trustee in good faith and in accordance therewith.

Section 10.05 Disqualified Bonds

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the City (but excluding Bonds held in any employees' retirement fund) must be disregarded and deemed not to be Outstanding for the purpose of any such determination. The Trustee will not be deemed to have knowledge

that any Bond is owned or held by the City unless the City is the Registered Owner or the Trustee has received written notice to that effect.

Section 10.06 Waiver of Personal Liability

No member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of or interest or any premium on the Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Section 10.07 Destruction of Canceled Bonds

Whenever in this Indenture provision is made for the surrender to the City of any Bonds which have been paid or canceled under the provisions of this Indenture, a certificate of destruction duly executed by the Trustee shall be deemed to be the equivalent of the surrender of such canceled Bonds and the City shall be entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such Bonds therein referred to. The City shall pay all costs of any microfilming of Bonds to be destroyed.

Section 10.08 Funds and Accounts

Any fund or account required by this Indenture to be established and maintained by the City or the Trustee may be established and maintained in the accounting records of the City or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts held by the City shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with corporate trust industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

Section 10.09 Notices

All written notices to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. The City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the City: City of El Paso de Robles
1000 Spring Street
El Paso de Robles, California 93446
Attention: Director of Administrative Services
Fax: (805) 237-6565

If to the Trustee: Union Bank, N.A.
350 California Street, 11th Floor
San Francisco, California 94104
Attention: Corporate Trust Department
Fax: (415) 273-2492

Section 10.10 Unclaimed Moneys

Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for two years after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with

the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the City for the payment of the principal of and interest on such Bonds.

Section 10.11 Execution in Several Counterparts

This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 10.12 Governing Law

This Indenture shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the City of El Paso de Robles has caused this Indenture to be signed in its name by its City Manager, and its seal to be affixed hereon and attested by its City Clerk, and Union Bank, N.A., in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

CITY OF EL PASO DE ROBLES

By _____
City Manager

[S E A L]

Attest:

City Clerk

UNION BANK, N.A., as Trustee

By _____
Authorized Officer

INDENTURE OF TRUST
CITY OF EL PASO DE ROBLES

APPENDIX A

DEFINITIONS

"2002 Bonds" means the City of El Paso de Robles Public Financing Authority 2002 Installment Sale Revenue Bonds (Sewer Enterprise Project), issued by the Authority in the aggregate principal amount of \$11,550,000.

"2002 Installment Payments" means semiannual installment payments which the Authority is obligated to make under Section 4.04 of the 2002 Installment Sale Agreement.

"Additional Revenues" means, with respect to the issuance of any Parity Debt, any or all of the following amounts:

- (i) An allowance for Net Revenues from any additions or improvements to or extensions of the Wastewater System to be made from the proceeds of such Parity Debt in an amount equal to 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 by the certificate or opinion of a Financial Consultant.
- (ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Wastewater System which has become effective prior to the incurring of such Parity Debt but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the City are available, or for any more recent consecutive 12-month period selected by the City under Section 4.04(b), was not in effect, in an amount equal to the total 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 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

"Bond Counsel" means (a) Law Office of Robert M. Haight, or (b) any other attorney or firm of attorneys appointed by or acceptable to the City of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

"Bond Law" means the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

"Bond Year" means any twelve-month period commencing on June 2 in a year and ending on the next succeeding June 1, both dates inclusive; except that the first Bond Year commences on the Closing Date and ends on June 1, 2013.

"Bonds" means the City of El Paso de Robles 2012 Wastewater Revenue Refunding Bonds issued and at any time Outstanding.

"Business Day" means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the state in which the Office of the Trustee is located, and on which the Federal Reserve Bank system is not closed.

"Certificate of the City" means a certificate in writing signed by the Mayor, the City Manager or the Director of Administrative Services of the City, the City Treasurer, or any other officer of the City duly authorized by the City Council for that purpose.

“City” means the City of El Paso de Robles, a general law city and municipal corporation organized and existing under the Constitution and laws of the State of California, and any successor thereto.

“Closing Date” means April ___, 2012, being the date of delivery of the Bonds to the Original Purchaser.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City relating to the authorization, issuance, sale and delivery of the Bonds and the current refunding of the 2002 Installment Payments and the 2002 Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, and any other cost, charge or fee in connection with the original issuance of the Bonds and the current refunding of the 2002 Installment Payments and the 2002 Bonds.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee under Section 4.03.

“Debt Service” means, with respect to any Fiscal Year, the sum obtained by totaling the following amounts for such Fiscal Year:

- (a) the aggregate amount of principal of and interest on the Outstanding Bonds coming due and payable in such Fiscal Year;
- (b) the principal amount of and interest on all outstanding Parity Debt, if any, coming due and payable by their terms in such Fiscal Year; and *provided, however*, that with respect to any Parity Debt which bears interest at an adjustable rate, such interest shall be calculated at an assumed rate equal to the average rate of interest per annum for each of the five previous whole calendar years as shown by the J. J. Kinney Index (or, if and to the extent such index is not maintained for all or any portion of such period, any similar index of variable rate interest for tax-exempt obligations selected by the City in its sole discretion).

“Debt Service Fund” means the fund by that name established and held by the Trustee under Section 5.02(b)(ii).

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository under Section 2.04.

“Depository System Participant” means any participant in the Depository’s book-entry system.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” means any of the events described in Section 9.01.

“Federal Securities” means any of the following which at the time of investment are legal investments under the laws of the State of California for the funds purported to be invested therein: (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully secured or guaranteed by the full faith and credit of the United States of America.

“Financial Consultant” means any consultant or firm of such consultants appointed by the City and who, or each of whom: (a) is judged by the City to have experience in matters relating to the financing of wastewater systems; (b) is in fact independent and not under domination of the City; (c) does not have any substantial interest, direct or indirect, with the City; and (d) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30, or such other period as may be established by the City as its official fiscal year period (written notice of which shall be given by the City to the Trustee).

“Gross Revenues” means all gross income and revenue received by the City from the ownership and operation of the Wastewater System, including, without limiting the generality of the foregoing:

- (a) all amounts levied by the City as a fee for connecting to the Wastewater System, as such fee is established for time to time under the applicable laws of the State of California;
- (b) all income, rents, rates, fees, capital improvement fees (including facilities capacity and pump zone fees), charges or other moneys derived from the services, facilities and commodities sold (including recycled water), furnished or supplied through the facilities of the Wastewater System,
- (c) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Wastewater System,
- (d) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Wastewater System as permitted hereunder, and
- (e) amounts transferred into the Wastewater Fund from a Rate Stabilization Fund under Section 5.03.

The term “Gross Revenues” does not include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, (ii) the proceeds of any ad valorem property taxes, *if any*, levied to pay general obligation bond indebtedness of the City with respect to the Wastewater System, (iii) special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Wastewater System and (iv) amounts transferred from the Wastewater Fund into the Rate Stabilization Fund during a fiscal year, but only to the extent that those amounts were included in Gross Revenues for that fiscal year.

“Indenture” means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture under the provisions hereof.

“Independent Accountant” means any accountant or firm of such accountants appointed and paid by the City, and who, or each of whom (a) is in fact independent and not under domination of the City; (b) does not have any substantial interest, direct or indirect, with the City; and (c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“Interest Payment Date” means December 1 and June 1 in each year, beginning December 1, 2012, and continuing so long as any Bonds remain Outstanding.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum amount of Debt Service on the Outstanding Bonds and all outstanding Parity Debt for the current or any future Fiscal Year.

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

“Nominee” means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under Section 2.04(a).

“Office” means, with respect to the Trustee, the corporate trust office of the Trustee at the address set forth in Section 10.09, or at such other or additional offices as may be specified by the Trustee in writing to the City; except that for purposes of payment, exchange, transfer, surrender and cancellation of Bonds, such term means the corporate trust office of the Trustee in Los Angeles, California.

“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Wastewater System, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and (b) all administrative costs of the City that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any) and insurance. “Operating and Maintenance Costs” do not include (i) administrative costs of the Bonds which the City is required to pay hereunder, (ii) payments of debt service on bonds, notes or other obligations issued by the City with respect to the Wastewater System, (iii) depreciation, replacement and obsolescence charges or reserves therefor, and (iv) amortization of intangibles or other bookkeeping entries of a similar nature.

“Original Purchaser” means Stifel Nicolaus & Company, Incorporated, dba Stone & Youngberg, a Division of Stifel Nicolaus, as the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding”, when used as of any particular time with reference to Bonds, or Parity Debt means all Bonds or Parity Debt theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (a) Bonds or Parity Debt theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds or Parity Debt with respect to which all liability of the City has been discharged in accordance with Section 10.03; (c) Bonds or Parity Debt for the transfer or exchange of or in lieu of or in substitution for which other Bonds or Parity Debt shall have been authenticated and delivered by the Trustee under this Indenture; and (d) Bonds which are required to be disregarded and not deemed Outstanding under Section 10.05.

“Owner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Parity Debt” means all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the City payable from and secured by a pledge of and lien on any of the Net Revenues issued or incurred on parity with the Bonds under Section 4.05.

“Parity Debt Documents” means, with respect to any issue of Parity Debt, the agreement, indenture of trust, resolution or other instrument authorizing the issuance of such Parity Debt.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) obligations of any federal agency which either (a) represent full faith and credit of the United States of America, or (b) are rated “AA” or better by S&P;
- (c) U.S. dollar denominated deposit accounts federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “A” or better by S&P, maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank;

- (d) commercial paper which is rated at the time of purchase in the single highest classification, "A" or better by S&P, and which matures not more than 270 calendar days after the date of purchase;
- (e) investments in a money market fund, including those of an affiliate of the Trustee, rated in the highest short-term rating category by S&P, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services;
- (f) investment agreements with financial institutions whose long-term general credit rating is A or better from S&P, by the terms of which the Trustee may withdraw funds if such rating falls below "A"; and
- (g) the Local Agency Investment Fund of the State of California, created under Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

"Rate Stabilization Fund" means the fund (if any) by that name established and held by the City under Section 5.03.

"Record Date" means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date.

"Registration Books" means the books maintained by the Trustee under Section 2.06 for the registration and transfer of ownership of the Bonds.

"Request of the City" means a request in writing signed by the Mayor, the City Manager or the Director of Administrative Services of the City, the City Treasurer or any other officer of the City duly authorized by the City Council for that purpose.

"Securities Depositories" means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a Request of the City delivered by the City to the Trustee.

"S&P" means Standard & Poor's Corporation, of New York, New York, and its successors.

"Supplemental Indenture" means any indenture, agreement, resolution or other instrument hereafter duly adopted or executed in accordance with Section 8.01.

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

"Trustee" means Union Bank, N.A., as Trustee hereunder, or any successor thereto appointed as Trustee under Article VII.

"Wastewater Fund" means the fund established and held by the City with respect to the Wastewater System for the deposit of Gross Revenues.

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

collection, treatment, purification, reclamation or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

**APPENDIX B
FORM OF BOND**

No. R-__

\$

**CITY OF EL PASO DE ROBLES
2012 WASTEWATER REVENUE REFUNDING BONDS**

INTEREST RATE: _____%	MATURITY DATE: June 1, ____	ISSUE DATE: April __, 2012	CUSIP:
---------------------------------	---------------------------------------	--------------------------------------	---------------

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The City of El Paso de Robles, a general law city and municipal corporation organized and existing under the Constitution and laws of the State of California (the "City") for value received, hereby promises to pay (but only out of the Net Revenues and other assets pledged therefor as hereinafter mentioned) to the Registered Owner stated above, or registered assigns, on the Maturity Date stated above, the Principal Amount stated above, in lawful money of the United States of America; and to pay interest thereon in like lawful money from the Interest Payment Date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of a day during the period commencing after the fifteenth day of the month preceding an Interest Payment Date and ending on or before such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or before November 15, 2012, in which event it shall bear interest from the Issue Date stated above) until payment of such principal sum shall be discharged as provided in the Indenture hereinafter mentioned, at the Interest Rate per annum stated above, payable semiannually on each December 1 and June 1, commencing December 1, 2012 (each, an "Interest Payment Date").

The principal hereof is payable by check at the Office (as defined in the Indenture referred to below) of Union Bank, N.A. (together with any successor trustee under the Indenture, the "Trustee"). Interest hereon is payable by check of the Trustee mailed on each Interest Payment Date to the Registered Owner as of the 15th day of the month preceding each Interest Payment Date (except with respect to payment of defaulted interest as provided in the Indenture hereinafter referred to) at the address shown on the registration books maintained by the Trustee. Payment of interest will be made by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee before the 15th day of the month preceding the applicable Interest Payment Date.

This Bond is one of a duly authorized issue of bonds of the City designated as its “City of El Paso de Robles 2012 Wastewater Revenue Refunding Bonds” (the “Bonds”), in the aggregate principal amount of \$_____, authorized under Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the “Bond Law”), and issued under an Indenture of Trust, dated as of March 1, 2012 (the “Indenture”), between the City and the Trustee. The Bonds have been issued for the purpose of refinancing certain obligations of the Authority relating to the City’s wastewater collection, treatment and disposal system (the “Wastewater System”).

Reference is hereby made to the Indenture (a copy of which is on file at said Office of the Trustee) and all indentures supplemental thereto and to the Bond Law for a description of the rights thereunder of the owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the City thereunder. The Registered Owner of this Bond, by acceptance hereof, assents and agrees to all the provisions of the Indenture.

The Bonds maturing on or after June 1, 2023, are subject to optional redemption without premium in whole or in part on any date on or after June 1, 2022, together with interest accrued and unpaid to the date fixed for redemption, from the proceeds of optional prepayments made by the City pursuant to the Indenture.

Bonds maturing on June 1, 20__ (the “20__ Term Bonds”) and June 1, 20__ (the “20__ Term Bonds”) (collectively, the “Term Bonds”) shall also be subject to mandatory prepayment in part, by lot, on June 1 in each year commencing June 1, 20__ (as to the 20__ Term Bonds) and June 1, 20__ (as to the 20__ Term Bonds) from payments made by the City pursuant to the Indenture, at a prepayment price equal to the principal amount evidenced thereby to be prepaid, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following tables; provided, however, that if some but not all of such 20__ Term Bonds and 20__ Term Bonds, respectively, have been prepaid pursuant to the preceding paragraph or the succeeding paragraph the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such 20__ Term Bonds and 20__ Term Bonds so prepaid, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000, as determined by the City.

Bonds Maturing June 1, 20__

Sinking Fund Prepayment Date (June 1)	Principal Amount of Term Bonds to be Prepaid
--	---

Bonds Maturing June 1, 20__

Sinking Fund Prepayment Date (June 1)	Principal Amount of Term Bonds to be Prepaid
--	---

Whenever provision is made in this Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption, in such order of maturity as shall be selected by the City and by lot within a maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

Notice of redemption shall be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, and to the Securities Depositories and to the Information Services. The City shall have the right to rescind any redemption by written notice to the Paying Agent on or prior to the date fixed for redemption and such cancellation shall not constitute a default under the Indenture.

The Bonds and the interest thereon are payable from Net Revenues of the Wastewater System (as such terms are defined in the Indenture) and are secured by a pledge and assignment of said Net Revenues and by a pledge and assignment of amounts held in the Debt Service Fund established under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The City has the right under the Indenture to issue additional obligations on parity with the Bonds, subject to the specific conditions set forth in the Indenture. The Bonds are special obligations of the City and are not a lien or charge upon the funds or property of the City, except to the extent of the aforesaid pledge and assignment.

The Bonds are issuable as fully registered Bonds in denominations of \$5,000 and any integral multiple thereof. Subject to the limitations provided in the Indenture, Bonds may be exchanged, at said Office of the Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at said office of the Trustee, but only in the manner, subject to the limitations provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer, a new Bond or Bonds, of authorized denomination or denominations, of the same maturity and for the same aggregate principal amount, will be issued to the transferee in exchange herefor. The City and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the City and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the City and of the owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the City to pay the principal and interest at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee, all as more fully set forth in the Indenture.

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the Trustee for registration or transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co. has an interest herein.

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

This Bond is not entitled to any benefit under the Indenture, or is not valid or obligatory for any purpose, until the certificate of authentication hereon endorsed has been signed by the Trustee.

IN WITNESS WHEREOF, City of El Paso de Robles has caused this Bond to be executed in its name and on its behalf by the signature of the Treasurer of the City and its seal to be reproduced hereon by facsimile and attested to by the signature of the City Clerk of the City, all as of the Issue Date stated above.

CITY OF EL PASO DE ROBLES

By _____
Treasurer

Attest:

City Clerk

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

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

Dated: _____

UNION BANK, N.A.,
as Trustee

By _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto _____ whose address and social security or other tax identifying number is _____, the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Note: Signature(s) must be guaranteed by an eligible guarantor institution.

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

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face hereof, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common	UNIF GIFT MIN ACT ____ Custodian
TEN ENT -- as tenants by the Entireties	(Cust) ____ (Minor) ____ under
JT TEN -- as joint tenants with	Uniform Gifts to Minors Act
____ right of survivorship and not as tenants	_____
in common	(State)

ADDITIONAL ABBREVIATIONS MAY ALSO BE USED
THOUGH NOT IN THE LIST ABOVE

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto

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

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

Dated: _____

Signature Guaranteed:

Note: Signature(s) must be guaranteed by an eligible guarantor.

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

Law Office of
ROBERT M. HAIGHT
ATTORNEY AT LAW
Municipal Bond Counsel

April ____, 2012

City of El Paso de Robles
1000 Spring Street
PO Box 307
El Paso de Robles, California 93446

OPINION:

\$ _____
CITY OF EL PASO DE ROBLES
2012 WASTEWATER REVENUE REFUNDING BONDS

Members of the City Council:

We have acted as bond counsel to the City of El Paso de Robles (the "City") in connection with the issuance by the City of \$_____ City of El Paso de Robles 2012 Wastewater Revenue Refunding Bonds (the "Bonds"), pursuant to the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law") and the Indenture of Trust, dated as of March 1, 2012, by and between the City and Union Bank, N.A., as trustee (the "Indenture"). The Bonds have been issued by the City to provide funds to pay and prepay 2002 Installment Payments with an irrevocable deposit of funds which has the effect of discharging the Authority's obligations under the 2002 Installment Sale Agreement and to pay costs of issuance. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The City is a general law city and municipal corporation duly organized and validly existing under the constitution and laws of the State of California with the full power to enter into the Indenture and to issue the Bonds.
2. The Indenture, dated as of March 1, 2012, by and between Union Bank, N.A. and the City has been duly approved by the City Council and constitutes a valid and binding special obligation of the City, have been duly approved by the City and constitute valid and binding special

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5435 Scotts Valley Drive, Suite D • Scotts Valley, California 95066 • (831) 438-6610 • FAX (831) 438-1367

Email: rmhaight@earthlink.net

obligations of the City enforceable against the City in accordance with their respective terms. The Indenture creates a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

3. The Bonds have been duly authorized, executed and delivered by the City and are valid and binding special obligations of the City, payable solely from the sources provided therefor in the Indenture.

4. 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 imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest 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 Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

/S/ ROBERT M. HAIGHT

JONES HALL AGENDA DRAFT

PRELIMINARY OFFICIAL STATEMENT DATED APRIL __, 2012

**NEW ISSUE
FULL BOOK ENTRY**

RATINGS: S&P: “__”

In the opinion of Robert M. Haight, Scotts Valley, California, Bond Counsel, subject to certain qualifications described herein, under existing law, the 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 imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS.”

\$ _____^{*}
**CITY OF EL PASO DE ROBLES
2012 WASTEWATER REVENUE REFUNDING BONDS**

Dated: Date of Delivery

Due: June 1, as shown below

The captioned bonds (the “Bonds”) are being issued by the City of El Paso de Robles (the “City”) under an Indenture of Trust dated as of March 1, 2012 (the “Indenture”) between the City and Union Bank, N.A., Los Angeles, California, as trustee (the “Trustee”). Proceeds of the Bonds will be used to (i) refinance an existing installment payment obligation of the City and cause a concurrent redemption of related bonds and (ii) pay the costs of issuing the Bonds.

The Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to ultimate purchasers (“Beneficial Owners”) in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of certificates representing their ownership interest in the Bonds. Interest on the Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2012, by the Trustee to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the Bonds.

The Bonds are subject to redemption prior to maturity as described in this Official Statement. See “THE BONDS – Redemption.”

The Bonds are special obligations of the City and are payable exclusively from Net Revenues (as defined in this Official Statement) of the City’s wastewater system (the “Wastewater System”) and from amounts on deposit in certain funds and accounts established under the Indenture. Under the Indenture, the City may incur additional obligations secured by Net Revenues on a parity with the Bonds, provided that the conditions set forth in the Indenture are met. See “RISK FACTORS” and “SECURITY FOR THE BONDS – Parity Debt.”

The following firm, serving as financial advisor to the City, has structured this issue.



THE BONDS ARE NOT A DEBT, LIABILITY OR OBLIGATION OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE CITY, AND NEITHER THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS, OTHER THAN THE CITY, IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM NET REVENUES PLEDGED BY THE CITY FROM THE CITY’S WASTEWATER SYSTEM AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. NEITHER THE CITY NOR ANY PERSONS EXECUTING THE BONDS ARE LIABLE PERSONALLY ON THE BONDS BY REASON OF THEIR ISSUANCE.

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the Bonds. Investors should review the entire Official Statement before making any investment decision.

MATURITY SCHEDULE

(See inside cover)

The Bonds are offered when, as and if issued, and accepted by the Underwriter, subject to approval as to legality by Robert M. Haight, Scotts Valley, California, Bond Counsel, and subject to certain other conditions. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as Counsel to the Underwriter. It is anticipated that the Bonds will be available for delivery in book-entry form on or about April ____, 2012.



Dated: April __, 2012

^{*} Preliminary; subject to change.

MATURITY SCHEDULE

Base CUSIP[†]: _____

<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†] Number</u>
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† Copyright 2012, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

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

Document References and Summaries. All references to and summaries of the Indenture, the Installment Purchase Agreement 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.

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

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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.

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

CITY OF EL PASO DE ROBLES

CITY COUNCIL

Duane Picanno, *Mayor*
John Hamon, *Mayor Pro Tem*
Ed Steinbeck, *Council Member*
Fred Strong, *Council Member*
Nick Gilman, *Council Member*

CITY OFFICIALS

James L. App, *City Manager*
Michael J. Compton, *City Treasurer*
James Throop, *Director of Administrative Services*
Jennifer Sorenson, *Finance Manager*
Dennis Fansler, *City Clerk*
Doug Monn, *Public Works Director*

BOND RELATED SERVICES

Financial Advisor

NHA Advisors
San Rafael, California

Trustee

Union Bank, N.A.
San Francisco, California

Escrow Agent

Union Bank, N.A.
Los Angeles, California

Bond Counsel

Robert M. Haight
Scotts Valley, California

TABLE OF CONTENTS

INTRODUCTION.....	1
REFINANCING PLAN.....	2
Prepayment of 2002 Installment Payments and Defeasance of Related 2002 Bonds.....	2
Estimated Sources and Uses of Funds.....	3
Debt Service Schedule.....	4
THE BONDS.....	5
Description.....	5
No Early Redemption.....	5
Transfer and Exchange.....	7
SECURITY FOR THE BONDS.....	8
Pledge of Net Revenues; Net Revenues.....	8
Deposit and Transfer of Net Revenues.....	9
Rate Stabilization Fund.....	10
Reserve Fund.....	10
Parity Debt.....	11
Rate Covenant; Collection of Rates and Charges.....	11
Insurance; Net Proceeds.....	12
THE CITY.....	13
General.....	13
Management.....	13
Population.....	14
THE WASTEWATER SYSTEM.....	15
Background.....	15
Service Area.....	15
Wastewater System Facilities.....	15
Governance and Management of the Wastewater System.....	18
Historical Flow.....	19
Customers of the Wastewater System.....	20
Billing and Collection.....	22
Current and Future Rates.....	22
Regulatory Issues.....	27
Existing Debt of the System.....	30
Capital Improvement Plan.....	30
Historical Operating Results.....	32
Historical Debt Service Coverage.....	33
Projected Debt Service Coverage.....	33
RISK FACTORS.....	35
Revenues; Rate Covenant.....	35
City Expenses.....	35
Customer Concentration.....	35
Environmental Regulation.....	36
Insurance.....	36
Limitations on Remedies Available to Bond Owners.....	36
No Debt Service Reserve Fund.....	37
Parity Debt.....	37
Natural Disasters; Earthquake Risk.....	37
Loss of Tax-Exemption.....	39
Secondary Market for Bonds.....	42
CONTINUING DISCLOSURE.....	42
NO LITIGATION.....	43
FINANCIAL STATEMENTS.....	43
RATINGS.....	43
TAX MATTERS.....	44
CERTAIN LEGAL MATTERS.....	44
UNDERWRITING.....	44
MISCELLANEOUS.....	45
APPENDIX A - AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2011	
APPENDIX B - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	
APPENDIX C - CITY OF EL PASO DE ROBLES GENERAL INFORMATION	
APPENDIX D - FORM OF BOND COUNSEL OPINION	
APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE	
APPENDIX F - BOOK ENTRY ONLY SYSTEM	

OFFICIAL STATEMENT

\$ _____ *

CITY OF EL PASO DE ROBLES
2012 WASTEWATER REVENUE REFUNDING BONDS

INTRODUCTION

This Official Statement, including the cover page and appendices, is provided to furnish information in connection with the sale by the City of El Paso de Robles (the “City”) of the captioned bonds (the “Bonds”). This Introduction contains a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Definitions of certain terms used in this Official Statement are set forth in “APPENDIX B – Summary of Certain Provisions of the Indenture”.

Authority for Issuance. The Bonds are being issued under the provisions of Articles 10 and 11 of Part 1 of Division 2 of Title 5 of the California Government Code (the “Bond Law”) and an Indenture of Trust (the “Indenture”) dated as of March 1, 2012, between the City and Union Bank, N.A., Los Angeles, California, as trustee (the “Trustee”).

Use of Proceeds. The proceeds of the Bonds will be used to (i) defease and prepay an existing installment payment obligation of the City and cause a concurrent defeasance and redemption of related bonds and (ii) pay the costs of issuing the Bonds. See “REFINANCING PLAN.”

Security for the Bonds. The Bonds will be payable from and secured by Net Revenues (as defined in this Official Statement) derived from the operation of the City’s wastewater system (the “Wastewater System”). See “SECURITY FOR THE BONDS.” **The City is not funding a debt service reserve fund for the Bonds.**

Rate Covenant. In the Indenture, the City covenants to fix, prescribe, revise and collect rates, fees and charges to generate sufficient Net Revenues to pay debt service on the Bonds. See “SECURITY FOR THE BONDS - Rate Covenant; Collection of Rates and Charges”.

Parity Debt. The City is authorized to incur additional obligations payable from Net Revenues on a parity basis (“Parity Debt”) with the Bonds. See “SECURITY FOR THE BONDS – Parity Debt.” **The City is currently out of compliance with applicable regulatory requirements, and intends to incur approximately \$50 million of Parity Debt in the near term (through fiscal year 2015-16) to finance improvements to its wastewater treatment**

* Preliminary; subject to change.

plant in order to remedy compliance and its collection facilities. See “THE WASTEWATER SYSTEM – Wastewater System Facilities,” “ – Regulatory Issues” and “ – Capital Improvement Plan.”

Limited Obligation. Neither the Bonds nor the obligation to pay principal of or interest thereon constitutes a debt, obligation or liability of the City, the State of California or any of its political subdivisions within the meaning of any Constitutional limitation on indebtedness, or a pledge of the full faith and credit of the City. The Bonds are secured solely by the pledge of Net Revenues by the City and certain funds held under the Indenture. The Bonds are not secured by a pledge of the taxing power of the City.

Risk Factors. The purchase of the Bonds involves certain risks. For a description of some of these risks, see “RISK FACTORS.”

The City. The City, commonly known as “Paso Robles,” is located in San Luis Obispo County (the “**County**”) midway between San Francisco and Los Angeles on Highway 101, approximately 112 miles west of Bakersfield. The City was incorporated in 1889 and has a current estimated population of 30,022 as of January 1, 2011.

For selected financial, economic and demographic information about the City, see “APPENDIX C – City of El Paso de Robles General Information.” The City’s audited financial statements for the fiscal year ended June 30, 2011 are attached as Appendix A.

Definitive Statement. All descriptions and summaries of various documents in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements in this Official Statement are qualified in their entirety by reference to each document. Certain capitalized terms used in this Official Statement and not defined in this Official Statement have the meaning given them in “APPENDIX B – Summary of Certain Provisions of the Indenture.”

REFINANCING PLAN

Prepayment of 2002 Installment Payments and Defeasance of Related 2002 Bonds

2002 Installment Payments. The City and the El Paso de Robles Public Financing Authority (the “**Authority**”) previously entered into an Installment Sale Agreement, dated as of December 1, 2002 (the “**2002 Installment Sale Agreement**”), under which the City agreed to pay semiannual installment payments in the aggregate principal amount of \$11,550,000 (the “**2002 Installment Payments**”). The 2002 Installment Payments were pledged by the Authority to the payment of debt service on its outstanding 2002 Installment Sale Revenue Bonds (Sewer Enterprise Project), issued by the Authority in the aggregate principal amount of \$11,550,000 (the “**2002 Authority Bonds**”).

Proceeds of the 2002 Authority Bonds were used to redeem the Authority’s outstanding \$5,600,000 initial principal amount Sewer Revenue Bonds, Series A (1993 Sewer System Refunding Project), and to finance improvements to the Wastewater System. The 2002 Authority Bonds are currently outstanding in the aggregate principal amount of \$6,895,000.

Prepayment and Redemption Rights. Under the 2002 Installment Sale Agreement, the City has the right to prepay the 2002 Installment Payments in an amount sufficient to provide for redemption of the 2002 Authority Bonds.

The 2002 Authority Bonds are subject to redemption in whole on any date, or in part on any interest payment date, at a redemption price equal to the outstanding principal amount of the 2002 Authority Bonds, plus accrued interest through the redemption date, with no redemption premium.

Proposed Refinancing. On the date of issuance of the Bonds (the “**Closing Date**”), the City will cause to be transferred to Union Bank, N.A., as trustee for the 2002 Bonds (the “**2002 Bond Trustee**”), for deposit into the redemption fund for the 2002 Authority Bonds (the “**2002 Redemption Fund**”), an amount sufficient, without the benefit of interest earnings, to defease and prepay the 2002 Installment Payments and to defease and redeem the 2002 Authority Bonds immediately following issuance of the Bonds. The 2002 Bond Trustee will hold amounts in the 2002 Redemption Fund uninvested.

The amounts held by the 2002 Bond Trustee in the 2002 Redemption Fund are pledged solely to the payment of the 2002 Installment Payments and the 2002 Authority Bonds. The funds deposited in the 2002 Redemption Fund will not be available for the payment of debt service on the Bonds.

Estimated Sources and Uses of Funds

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

Sources:

Principal Amount of the Bonds
Plus Net Original Issue Premium
Plus Amounts Available From 2002 Authority Bonds
Total Sources:

Uses:

Transfer to Escrow Agent
Costs of Issuance ⁽¹⁾
Total Uses:

1) Includes Underwriter's discount, Trustee fees, Financial Advisor fees, Bond Counsel fees, printing costs, rating agency fees and other related costs.

Debt Service Schedule

Scheduled debt service on the Bonds is shown in the following table.

**CITY OF EL PASO DE ROBLES
2012 Wastewater Revenue Refunding Bonds
Debt Service Schedule**

<u>Bond Year Ending June 1</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
Total			

THE BONDS

Description

The Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable semiannually on June 1 and December 1 (each, an “**Interest Payment Date**”), commencing December 1, 2012, and will mature on the dates and in the amounts set forth on the inside cover page. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, so long as no Bond may have more than one maturity date. The Bonds will be issued only as one fully registered Bond for each maturity, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“**DTC**”), as registered owner of all Bonds. See “APPENDIX F - Book-Entry Only System” below. Ownership may be changed only upon the registration books maintained by Union Bank, N.A. (the “**Trustee**”) as provided in the Indenture. See the discussion under “Transfer and Exchange” below.

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a Bond is authenticated between an Interest Payment Date and the 15th calendar day of the month immediately preceding such Interest Payment Date (each, a “**Record Date**”), in which event it will bear interest from such Interest Payment Date,
- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from its date of issuance and delivery, or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest on the Bonds (including the final interest payment upon maturity) is payable when due by check or draft of the Trustee mailed to the Owner thereof at such Owner’s address as it appears on the Registration Books at the close of business on the preceding Record Date; provided that at the written request of the Owner of at least \$1,000,000 aggregate principal amount of Bonds, which written request is on file with the Trustee as of any Record Date, interest on such Bonds will be paid on the succeeding Interest Payment Date to such account in the United States as specified in such written request.

While the Bonds are held in the book-entry only system of DTC, all such payments will be made to Cede & Co., as the registered Owner of the Bonds. The principal of the Bonds and any premium upon redemption, are payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee. See “APPENDIX F – Book Entry Only System”.

Redemption

Optional Redemption. The Bonds maturing on or after June 1, 2023, are subject to optional redemption without premium in whole at any time or in part on any date, on or after

June 1, 2022, together with interest accrued and unpaid to the date fixed for redemption, from the proceeds of optional prepayments made by the City pursuant to the Indenture.

Mandatory Redemption From Sinking Fund Payments. Bonds maturing on June 1, 20__ (the "**20__ Term Bonds**") and June 1, 20__ (the "**20__ Term Bonds**") (collectively, the "**Term Bonds**") are also subject to mandatory prepayment in part, by lot, on June 1 in each year commencing June 1, 20__ (as to the 20__ Term Bonds) and June 1, 20__ (as to the 20__ Term Bonds) from payments made by the City pursuant to the Indenture, at a prepayment price equal to the principal amount evidenced thereby to be prepaid, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following tables; provided, however, that if some but not all of such 20__ Term Bonds and 20__ Term Bonds, respectively, have been prepaid pursuant to the preceding paragraph or the succeeding paragraph the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such 20__ Term Bonds and 20__ Term Bonds so prepaid, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000, as determined by the City.

Bonds Maturing June 1, 20__

Sinking Fund Prepayment Date (June 1)	Principal Amount of Term Bonds to be Prepaid
--	---

Bonds Maturing June 1, 20__

Sinking Fund Prepayment Date (June 1)	Principal Amount of Term Bonds to be Prepaid
--	---

Selection of Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption, in such order of maturity as shall be selected by the City and by lot within a maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

Notice of Redemption

Notice of redemption shall be mailed by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, and to the Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than

all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and Bond numbers of the Bonds to be redeemed, the maturity or maturities of the Bonds to be redeemed and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the City.

Any such redemption notice may specify that redemption on the specified date will be subject to receipt by the City of moneys sufficient to cause such redemption (and shall specify the proposed source of such moneys) and neither the City nor the Paying Agent shall have any liability to Owners or any other party as a result of its failure to redeem the Bonds as a result of insufficient moneys. The City shall have the right to rescind any redemption by written notice to the Paying Agent 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 Bonds then called for redemption, and such cancellation shall not constitute a default hereunder. The Paying Agent shall mail notice or rescission of redemption in the same manner notice of redemption was originally provided.

Partial Redemption of Bonds

If any substantial part of the Wastewater System is sold, the payment therefor must either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied to redeem any Bonds or Parity Debt in accordance with the provisions of the Indenture or related Parity Debt Documents (as defined in the Indenture).

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

Effect of Redemption

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

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

Transfer and Exchange

So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, transfers and exchanges of Bonds will be made in accordance with DTC procedures. See

“Appendix F” below. Any Bond may, in accordance with its terms, be transferred, upon the registration books of the Trustee, upon surrender of such 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. Whenever any Bond or Bonds is surrendered for registration of transfer, the City will execute and the Trustee will authenticate and deliver a new Bond or Bonds, of like series, interest rate, maturity and principal amount of authorized denomination. The Trustee may refuse to transfer, either (a) any Bonds during the period 15 days prior to the date established by the Trustee for the selection of Bonds for redemption, or (b) any Bonds selected by the Trustee for redemption.

SECURITY FOR THE BONDS

Pledge of Net Revenues; Net Revenues

Pledge of Net Revenues. The Bonds and any Parity Debt are secured by a first pledge of all of the Net Revenues. In addition, the Bonds are secured by a pledge of all of the moneys in the Debt Service Fund, including all amounts derived from the investment of such moneys.

So long as any of the Bonds or Parity Debt is Outstanding, the Net Revenues and such moneys may not be used for any other purpose; except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture.

Definition of Net Revenues. Set forth below are the definitions of certain terms used in the Indenture:

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

“Gross Revenues” means all gross income and revenue received by the City from the ownership and operation of the Wastewater System, including, without limiting the generality of the foregoing:

- (a) all amounts levied by the City as a fee for connecting to the Wastewater System, as such fee is established for time to time under the applicable laws of the State of California;
- (b) all income, rents, rates, fees, capital improvement fees (including facilities capacity and pump zone fees), charges or other moneys derived from the services, facilities and commodities sold (including recycled water), furnished or supplied through the facilities of the Wastewater System,
- (c) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Wastewater System,
- (d) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Wastewater System as permitted hereunder, and
- (e) amounts transferred into the Wastewater Fund from a Rate Stabilization Fund.

The term “Gross Revenues” does not include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, (ii) the proceeds of any *ad valorem* property taxes levied to pay general obligation bond indebtedness of the City with respect to the Wastewater System, (iii) special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Wastewater System and (iv) amounts transferred from the Wastewater Fund into the Rate Stabilization Fund during a fiscal year, but only to the extent that those amounts were included in Gross Revenues for that fiscal year.

“**Operation and Maintenance Costs**” means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Wastewater System, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and (b) all administrative costs of the City that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any) and insurance.

“Operation and Maintenance Costs” do not include (i) administrative costs of the Bonds which the City is required to pay hereunder, (ii) payments of debt service on bonds, notes or other obligations issued by the City with respect to the Wastewater System, (iii) depreciation, replacement and obsolescence charges or reserves therefor, and (iv) amortization of intangibles or other bookkeeping entries of a similar nature.

Deposit and Transfer of Net Revenues

Flow of Fund. The City has previously established the Wastewater Fund, which it will continue to hold and maintain for the purposes and uses set forth in the Indenture. The City will deposit all Gross Revenues in the Wastewater Fund promptly upon receipt, and will apply amounts in the Wastewater Fund solely for the uses and purposes set forth in the Indenture and for the uses and purposes set forth in the documents authorizing the issuance of Parity Debt. In addition to transfers which are required to be made for repayment of any Parity Debt, the City will withdraw amounts on deposit in the Wastewater Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

- (i) Operation and Maintenance Costs. The City will apply amounts on deposit in the Wastewater Fund to pay all Operation and Maintenance Costs when due.
- (ii) Debt Service Fund. On or before the 3rd Business Day preceding each Interest Payment Date, so long as any Bonds remain outstanding, the City will withdraw from the Wastewater Fund and pay to the Trustee for deposit into the Debt Service Fund (which the Trustee will establish and hold in trust pursuant to the Indenture) an amount which, together with other available amounts then on deposit in the Debt Service Fund, is at least equal to the aggregate amount of principal of and interest coming due and payable on the Bonds on such Interest Payment Date.

The Trustee will apply amounts in the Debt Service Fund solely for the purpose of (A) paying the interest on the Outstanding Bonds when due and payable, and (B) paying the principal of the Bonds at the maturity thereof, including any sinking fund maturity. Upon the payment of all Outstanding Bonds, the Trustee will transfer any

moneys remaining in the Debt Service Fund to the City for deposit into the Wastewater Fund.

Other Uses of Wastewater Fund. The City will manage, conserve and apply moneys in the Wastewater Fund in such a manner that all deposits required to be made under the Indenture, and under any agreement, indenture of trust, resolution or other instrument authorizing the issuance of Parity Debt ("**Parity Debt Documents**"; see "Parity Debt" below), will be made at the times and in the amounts so required.

So long as no event of default has occurred and is continuing under and as defined in the Indenture, the City may at any time use and apply moneys in the Wastewater Fund for any one or more of the following purposes:

- (i) the payment of any subordinate obligations or any unsecured obligations;
- (ii) the acquisition and construction of extensions and improvements to the Wastewater System;
- (iii) the redemption of any obligations of the City relating to the Wastewater System; or
- (iv) any other lawful purpose of the City relating to the Wastewater System.

Rate Stabilization Fund

The City has the right at any time to establish a fund to be held by it and administered in accordance with the Indenture, 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 which are released from the pledge and lien which secures the Bonds 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 as otherwise provided in the Indenture), 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 Bonds 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 maintain funds in a Rate Stabilization Fund.

No Reserve Fund

The City is not obligated to, and will not, fund a debt service reserve fund for the Bonds. The City is not obligated to fund a debt service reserve fund in connection with the issuance of Parity Debt.

Parity Debt

Existing Parity Debt. Other than the 2002 Installment Payments, which will be prepaid with proceeds of the Bonds, the City has no other obligation that is secured by a pledge of Net Revenues.

Future Parity Debt. In addition to the Bonds, the City may issue any bonds, notes or other obligations (“**Parity Debt**”) payable from Net Revenues on a parity with the Bonds, provided that certain conditions are satisfied, including the following:

- (a) No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) has occurred and is continuing; and
- (b) The amount of Net Revenues, excluding connection fees, as shown by the books of the City for the most recent completed Fiscal Year for which audited financial statements of the City are available or for any more recent consecutive 12-month period selected by the City, in either case verified by an Accountant or a Financial Consultant or shown in the audited financial statements of the City, plus at the option of the City any Additional Revenues, are at least equal to 110% of the amount of Maximum Annual Debt Service coming due and payable in the current or any future Fiscal Year with respect to the Bonds and all Parity Debt then outstanding (including the Parity Debt then proposed to be issued).

The City is not obligated to fund a debt service reserve fund for the Parity Debt in connection with issuance of Parity Debt.

Immediate Plans to Incur Parity Debt. The City expects to incur approximately \$50 million of Parity Debt in the near future (through fiscal year 2015-16) in order to finance improvements to its wastewater treatment plant and its collection system. See “THE WASTEWATER SYSTEM – Wastewater System Facilities,” “ – Regulatory Issues” and “ – Capital Improvement Plan.”

Rate Covenant; Collection of Rates and Charges

The City has made the following rate covenants in the Indenture.

Gross Revenues. The City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues (excluding any amounts transferred from a Rate Stabilization Fund) sufficient to pay the following amounts in the following order of priority:

- (a) All Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;
- (b) The principal of and interest on the Bonds and any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such interest is payable from proceeds of Parity Debt deposited for such purpose; and

- (c) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

Net Revenues. The City is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 110% of the amount described in the preceding clause (b) for such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (a) any transfers into the Wastewater Fund in such Fiscal Year from the Rate Stabilization Fund shall be limited to 10% of the amount of Debt Service, which shall be included in the calculation of Net Revenues, and (b) any deposits into the Rate Stabilization Fund in such Fiscal Year are deducted from the amount of Net Revenues to the extent such deposits are made from Gross Revenues received by the City during that Fiscal Year.

Insurance; Net Proceeds

The City will at all times maintain with responsible insurers all 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 the Wastewater System. If any useful part of the Wastewater System is damaged or destroyed, such part must be restored to usable condition. All amounts collected from insurance against accident to or destruction of any portion of the Wastewater System will be used to repair or rebuild such damaged or destroyed portion of the Wastewater System, and to the extent not so applied, will be applied to redeem the Bonds or any Parity Debt in accordance with this Indenture and the related Parity Debt Documents. The City will also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City, the Trustee and the Owners of the Bonds.

All amounts collected from insurance against accident to or destruction of any portion of the Wastewater System constitute Gross Revenues and must be used to repair, rebuild or replace such damaged or destroyed portion of the Wastewater System or otherwise as permitted by the Indenture.

THE CITY

General

The City is located at the confluence of State Highway 101 and State Highway 46 in San Luis Obispo County (the "**County**"), approximately 150 miles south of San Jose and 220 miles north of Los Angeles. Located in the central coast area of the State of California, the City continues to be the fastest growing city within the County and has become the County's second largest city with 30,022 residents.

The City was incorporated in 1889 and operates under the Council-Manager form of local government. Four councilpersons are elected on a non-partisan basis, at large for four-year terms with two councilmen elected every two years. The Mayor is elected at large every two years. The Council appoints the City Attorney and City Manager. The City Clerk and City Treasurer are both elected at large for four-year terms. The City provides a full range of services including police and fire protection, library and recreation services, public works including maintenance of all City facilities, streets, parks, airport, and utility operations (sewer, water, and landfill), transit, and development and planning services.

Management

The current City Council members and the expiration dates of their terms of office are set forth below.

<u>Mayor, Mayor Pro Tem and City Council Members</u>	<u>Expiration of Term</u>
Duane Picano, <i>Mayor</i>	November 2012
John Hamon, <i>Mayor Pro Tem</i>	November 2014
Ed Steinbeck, <i>Council Member</i>	November 2014
Fred Strong, <i>Council Member</i>	November 2012
Nick Gilman, <i>Council Member</i>	November 2012

Population

The following table summarizes the State, the County and the City's population in 1990, 2000 and from 2007 through 2011.

Table 1
CITY OF EL PASO DE ROBLES, SAN LUIS OBISPO COUNTY AND STATE OF CALIFORNIA
Population Estimates
(As of January 1)

Year	City of El Paso de Robles	County of San Luis Obispo	State of California
1990	18,583	217,162	29,758,213
2000	24,297	246,681	33,873,086
2007	29,391	262,982	36,399,676
2008	29,602	265,505	36,704,375
2009	29,739	267,537	36,966,713
2010	29,759	269,333	37,223,900
2011	30,022	270,966	37,510,766

Source: California Department of Finance.

THE WASTEWATER SYSTEM

Background

General. The City owns and operates wastewater collection, transmission, treatment and disposal facilities (the “**Wastewater System**”). It transmits wastewater for treatment to the City-owned wastewater treatment plant (the “**Treatment Plant**”) on the north end of the City limits. Collection and conveyance is performed with a network of over 136 miles of gravity pipelines and supported by 14 sewer lift stations. These facilities lift sewage to a higher elevation in the primary collection system trunk lines for conveyance to the Treatment Plant.

History. The City's existing Treatment Plant is a trickling filter treatment process that was originally built in 1954 and expanded in the early 1970's and late 1980's. The Treatment Plant discharges 3 million gallons of wastewater per day (“**MGD**”) to the Salinas River. The Treatment Plant operates under National Pollutant Discharge Elimination System (“**NPDES**”) Permit No. CA0047953. See “-Regulatory Issues” below for a recent history of non-compliance, which the City expects to remedy with construction of proposed improvements to the Treatment Plant.

Current System. The current process at the Treatment Plant consists of physical treatment, primary treatment, trickling filters, secondary clarifiers, chlorination for disinfection and polishing ponds. The existing treatment process is antiquated and does not meet current State and Federal water quality regulations. The City has been fined for violations of its prior NPDES permit and is under a strict schedule for completion of the Treatment Plant improvements described below (see “-Regulatory Issues” below). See “-Wastewater System Facilities,” “Regulatory Issues” and “- Capital Improvement Program” below for a discussion of proposed improvements to the Treatment Plant.

Service Area

The Wastewater System provides wastewater collection and transmission service within the City's boundaries; it also provide service to a portion of the neighboring unincorporated community of Templeton (through the Templeton Community Services District) and the California Department of Corrections and Rehabilitation (formerly California Youth Authority), although the corrections facility is currently vacant and does not generate wastewater. The Templeton Community Services District and the California Department of Corrections and Rehabilitation own and maintain wastewater collection and transport facilities up to the point of discharge to interceptors owned and maintained by the City.

See “-Customers of the Wastewater System” for more information about the City's contract with Templeton Community Services District.

The total service area covers approximately 35 square miles. Approximately 30,000 residents are served through almost 10,000 service connectors. See “-Customers of the Wastewater System” below.

Wastewater System Facilities

Treatment Plant. The City's Treatment Plant has a capacity of 4.9 MGD, and its average flow is approximately 60% of its capacity. It provides secondary treatment consisting of primary sedimentation, trickling filters, secondary sedimentation and anaerobic digesters. The treated wastewater is discharged to the Salinas River and used to recharge groundwater and

provide wildlife habitat. The treated bio-solids are recycled at a landfill as a soil supplement. The Treatment Plant was upgraded in 1989 from a 2.2 MGD facility to a 4.9 MGD facility. The plant is currently treating an average of 2.9 MGD.

The sludge handling facility was upgraded in 2003.

Treatment of Wastewater. Wastewater undergoes a multi-step treatment process at the Treatment Plant. Preliminary treatment consists of chemical dosing for odor control, mechanical bar screens, and grit removal. The influent wastewater is discharged into the screening channel, which splits the flow between two mechanically cleaned bar screens. Screenings from this process are collected in wheel barrows located behind the screens.

Following screening, the influent wastewater flows to the aerated grit chambers. Air is introduced along one side of the channel to create a hydraulic roll within the chamber. Dense inert material settles out under these conditions. Lighter organic material stays in suspension for removal in subsequent processes. The air used to induce the rolling action is also used in air lift pumps which remove grit from the bottom of the basin. These pumps remove the settled grit from the system. Grit is conveyed to a dumpster using an inclined screw conveyor.

Effluent from the aerated grit basins is combined with solids from the secondary clarifier and filtrate from the dewatering process. The flow is split over flow proportional weirs through 18-inch pipes and distributed to the two primary clarifiers. Sludge from the bottom of both clarifiers is pumped by a primary sludge pump to the anaerobic digesters. Solids pumping is controlled using timers and automated valves from each primary clarifier. Scum from the top of the clarifiers is collected in a common scum box and pumped to the anaerobic digesters by a primary scum pump. Both of the primary pumps are located in the same structure between the primary clarifiers. Effluent from the primary clarifiers travels through a 24-inch reinforced concrete pipe to the primary trickling filter recirculation pump station.

The secondary treatment process consists of four trickling filters; two primary and two secondary. The primary trickling filters have plastic media, and the secondary trickling filters have rock media. The filters can be configured to operate in series or parallel. Two recirculation pump stations, each with three pumps and a wetwell, are dedicated to each pair of the parallel filters. Effluent from the trickling filters is distributed to four secondary clarifiers. Three of the clarifiers are circular, and the fourth is rectangular. Flow distribution to the clarifiers is controlled by a distribution box with four adjustable gates. The settled biological solids from the clarifiers are pumped back to the headworks for co-settling with the primary sludge.

Chlorine is added via a diffuser to the secondary effluent for disinfection in a chlorine mixing chamber. A two horsepower chlorine flash mixer mixes the chlorine solution water with the secondary effluent before entering the chlorine contact basin. Carrier water is pumped from the chlorine contact basin to the chlorinator.

The City operates three heated anaerobic sludge digesters to treat sludge collected from the primary and secondary clarifiers. A pumping system is used to mix the sludge. Two of the digesters operate as primary digesters, and the third is used as a secondary digester. The mixing pumps are capable of pumping to either the top or bottom of the digester. The flow path is alternated to keep the contents well mixed. Digested sludge can be pumped directly to the drying beds or the mechanical belt press before being sent to the drying beds. A 65,000-gallon tank stores sludge for the belt press and provides a day of pressing storage. Dried sludge is eventually sent to a City-owned landfill.

The disinfected effluent is stored in six holding ponds before being discharged to the Salinas River.

Proposed Improvements to the Treatment Plant. The City intends to significantly upgrade the Treatment Plant to address concerns regarding whole effluent toxicity and to allow for recycled water. The existing Treatment Plant will be upgraded to an advanced secondary treatment process, but it will be designed to allow the addition of tertiary treatment facilities to produce recycled water in the long term. Advanced secondary treatment means treatment that meets federal secondary treatment standards for biochemical oxygen demand, total suspended solids, and pH, plus nutrient removal. The advanced secondary treatment process will include new headworks (including grit removal), a rehabilitated primary clarification process, an activated sludge process (biological nutrient removal) with new secondary clarifiers, chloramination, and dechlorination. Treated wastewater will flow into an effluent polishing channel constructed in an area that is currently a polishing pond. The channel will allow treated wastewater to cascade down to the Salinas River, thus oxidizing and volatilizing any residual pollutants that may be present in the treated wastewater. The channel will mimic a creek and fan out near the river, delivering the wastewater by diffuse, laminar flow. Ancillary facilities will include a cogeneration system to produce electric power and heat from biogas, a new standby power generation system, an approximately 6,000 square foot laboratory and operations building, and an approximately 4,000 square foot canopy building for storage of collection system maintenance equipment. The 4.9 MGD capacity of the upgraded Treatment Plant is based on the City's General Plan, which projects a population of 44,000 by 2025.

Tertiary treatment facilities will be added in approximately 2022 to accommodate a recycled water program by 2025. Tertiary facilities will likely include a filtration process and a new chlorine contact chamber.

One of the six existing polishing ponds will be converted into the effluent polishing channel described above. The other five ponds will be re-purposed for stormwater retention. The upgraded plant will have plumbing to temporarily bypass treated wastewater into the three northernmost ponds, to facilitate maintenance of the effluent polishing channel. If necessary, wastewater discharged into these ponds would discharge to the river through the existing outfall at the north end of the northernmost pond. In the future, these ponds may be converted to recycled water storage. In no case would chlorinated wastewater be discharged to the river.

Design of the upgrade is now complete, and is expected to cost approximately \$49.6 million including construction and all soft costs such as engineering and construction management. The project is scheduled to go out to bid in October 2012. Construction will require approximately 30 months and is expected to commence in January 2013. The City is subject to an order from the Central Coast Regional Water Quality Control Board with respect to construction of the Treatment Plant, and expects the proposed schedule to meet the regulatory requirements. See "-Regulatory Issues" below.

See "- Capital Improvement Plan" below for a discussion of the City's proposed financing plan related to the Treatment Plant, including the issuance of Parity Debt.

The City expects the upgraded Treatment Plant to require more staff to operate, so Operation and Maintenance Costs will increase by approximately 30% upon completion. Some of the additional costs will be offset by income from tipping fees for septage receiving. The City's

current rate structure was established to provide sufficient revenues to pay these increased costs.

Collection Facilities. The wastewater collection facilities consist primarily of 123 miles of sewer mains and 14 lift stations. More than 57% of the City's collection system is 8-inches in diameter, with 90% represented by 12-inch diameter or smaller pipelines. Similarly, two-thirds of these pipelines are made of polyvinyl chloride (PVC), a widely used plastic piping material, and almost one-third is made with vitrified clay pipe (VCP), which has been in use for wastewater collection in the United States for over 150 years. All of the lift stations are on a SCADA tracking and alarm system. Computers monitor wet well levels and pump operation. If a pump fails an alarm is sent for the operator to respond and fix the problem. The system also keeps historical data to be used for reporting purposes.

The Wastewater System includes three major sewer interceptors. On the east side is the Templeton Interceptor and the Airport Interceptor; on the west side is the Riverside Interceptor.

Information Management System. The Wastewater System currently has a limited information management system. None of the signals in the process are brought back to a main computer for logging or monitoring. The system has the ability to relay four alarm conditions to an autodialer (for high water alarm, power failure, chlorine pump alarm, and chlorine leak detector). These alarms dial out to both the police department and plant staff in case the alarm occurs during unmanned hours.

Governance and Management of the Wastewater System

General. The City currently employs approximately 151 full-time individuals. In fiscal year 2010-11, the City employed 13.5 full-time equivalent employees with respect to operation and maintenance of the Wastewater System. The cost of these full-time equivalent employees is payable as an Operation and Maintenance Cost from wastewater service charges. In addition, the Wastewater System is responsible for paying a portion of the City's personnel costs (including retirement-related costs). See Appendix C for information about the City's pension obligations and post-retirement medical benefit obligations

Labor Agreements. The status of the City's labor contracts are summarized below.

No. of Employees	Contract Expires
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Contracts which have expired are still under negotiation. Because the Wastewater System is responsible for paying a share of the City's expenses that are allocable to the Wastewater System (approximately ____% of total City employee costs), the Wastewater System can be impacted by all of these labor contracts.

Historical Flow

The following table shows the wastewater flow to the Treatment Plant and the flow generated in the Wastewater System's service area during the previous five fiscal years. During fiscal year 2010-11, Templeton Community Services District contributed approximately 7% (approximately 0.2 MGD) of the Wastewater System's total flow.

Table 2
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Wastewater Flow
Fiscal Years 2006-07 through 2010-11

Fiscal Year	City Boundaries (MGD)	Templeton CSD (MGD)	Average Daily Treatment Million Gallons per Day (MGD)
2006-07	2.78	0.2	2.983
2007-08	2.82	0.2	3.020
2008-09	2.74	0.2	2.940
2009-10	2.74	0.2	2.940
2010-11	2.75	0.2	2.950

Source: City of El Paso de Robles.

Customers of the Wastewater System

User Base. As of June 30, 2011, wastewater service was provided to a total of 9,970 customer accounts, including residential accounts (approximately 92%), commercial/industrial accounts (approximately 7%) and institutional accounts (e.g., schools, churches, government facilities; approximately 1%) as shown in the following table. The components of the Wastewater System’s user base for fiscal years 2006-07 through 2010-11 are shown in the following table.

**Table 3
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Wastewater Service User Base**

<u>Customer Accounts</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Single-Family Residential					
Commercial/Industrial					
Institutional					
Total:					

Source: City of El Paso de Robles.

Largest Customers. The following table identifies the 10 largest Wastewater System users (based on flow) and their related wastewater service charges for fiscal year 2010-11.

**Table 4
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Ten Largest Users
Fiscal Year 2010-11**

<u>Name</u>	<u>Land Use</u>	<u>Fiscal Year 2010-11 Wastewater Service Charges</u>	<u>Percentage of Total Wastewater Service Charges for FY 2010-11</u>
Quail Run Mobile Home Estates	Single-family community		
Paso Robles Housing Authority	Multi-family housing		
South Valley Developers	Marriott Hotel		
Motel 6	Hotel		
Arciero Inns	Hotel		
Paso Robles Hospitality Inc.	Holiday Inn Express		
Creston Village	Senior community		
Pacific Coast Hotel Properties	Hotel		
Harrod Builders	Multi-family housing		
Firestone Walker Brewery	Industrial		

Source: City of El Paso de Robles.

Templeton Community Services District Agreement. The City and Templeton Community Services District are parties to an “Agreement between Templeton Community Services District and the City of El Paso De Robles Concerning the Sewer Interceptor, Wastewater Treatment and Disposal, and Related Matters” dated November 18, 1997, as amended on February 27, 1998 (the “**Templeton Agreement**”), The Templeton Agreement remains in effect until Templeton Community Services District relinquishes the rights granted to it under the Templeton Agreement. The Templeton Agreement specifically:

- (i) Amends a previous agreement pursuant to which Templeton Community Services District has contributed to the capital costs of a sewer interceptor line owned by the City and the Treatment Plant and had worked cooperatively with the City to obtain funding for those facilities and, as a result, obtained certain rights to those facilities.
- (ii) Directs that certain wastewater collected by Templeton Community Services District is transported for treatment at the Treatment Plant through the sewer interceptor line.
- (iii) Requires Templeton Community Services District to comply with wastewater criteria imposed by any state or federal agency in connection with the discharge of wastewater into the Wastewater System by customers of Templeton Community Services District.
- (iv) Commits Templeton Community Services District to contribute to the capital costs of any facility for improvements to the Treatment Plant that are not solely attributable to the City's need to meet increased demand and that are associated with treatment of wastewater from Templeton Community Services District.
- (v) Grants Templeton Community Services District a perpetual right to convey wastewater at a peak flow of 758,000 gallons per day ("**gpd**") through the sewer interceptor line.
- (vi) Grants Templeton Community Services District a wastewater treatment and disposal capacity right of 443,000 gpd average daily flow, based on annual flow.
- (vii) Requires Templeton Community Services District to pay a share of the Wastewater System's operation and maintenance costs for its use of the sewer interceptor line and the Treatment Plant. In fiscal year 2010-11, Templeton Community Services District paid \$_____ of operation and maintenance expenses (equal to approximately 7% of total operation and maintenance expenses) based on metered flow.

Templeton Community Services District, which was responsible for approximately 7% of the total wastewater flow treated by the Wastewater System in fiscal year 2010-11, has notified the City that it is seeking the necessary approvals to redirect the wastewater currently treated by the City's Wastewater System to Templeton Community Services District's own treatment plant. Until such time as the Templeton Community Services District actually disconnects from the sewer interceptor line, the Templeton Community Services District is obligated to pay its share of the cost of the City Wastewater Plant upgrade when City is required to pay for such costs. The City expects the redirection in the next three to four years. The City does not expect the proposed redirection of wastewater by Templeton Community Services District to adversely impact the Wastewater System. The wastewater delivered by Templeton Community Services District is very salty and septic (old); consequently, redirection from the Treatment Plant will reduce waste loading on the Treatment Plant (which will improve the City's ability to comply with applicable regulations) and prolong the life of the Wastewater System facilities.

Billing and Collection

[confirm: The City uses a consolidated bill for its Wastewater System and its water utility.] Wastewater service charges are billed each month. Bills are past due if not paid by 5:00 on the 5th day of the following month. A 10% penalty is automatically added to all unpaid accounts. Accounts remaining unpaid 10 days from the penalty date are subject to termination. Prior to service termination, the City provides one notice: a 48-hour notification is hung on the door where service is provided (with a \$30.00 door hanger charge). An \$87.00 non-payment/restoration charge will be added to accounts which are unpaid at 5:00 p.m. on the evening before shut off day, whether or not the water is actually shut off.

The following table shows historical billings, collection and delinquencies for the five most recent fiscal years.

**Table 5
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Historical Billings, Collections and Delinquencies
Fiscal Years 2006-07 through 2010-11**

June 30	Balance Beginning FY	Billings	Payments	Balance Ending FY	Write-off	% of Billing
2007	\$434,409	\$4,094,968	\$4,095,099	\$434,542	\$15,530	< 1%
2008	434,542	4,444,240	4,338,852	539,931	6,109	< 1
2009	539,931	4,608,895	4,285,107	781,411	19,169	< 1
2010	781,411	4,535,599	4,912,578	486,740	6,847	< 1
2011	486,740	4,680,024	4,696,057	470,707	5,006	< 1

Source: City of El Paso de Robles.

[Discuss: process for setting Templeton C.S.D rates.]

Current and Future Rates

Current Usage Rates. The City's current wastewater rate structure has been in place since 2004. The primary element of the current rate structure is a fixed rate of \$25.86 per unit for all customers. This charge annually generates more than 85% of the Wastewater System's operating revenues and recognizes that most of the Wastewater System's costs are fixed. To a much smaller degree, non-residential customers are also charged a variable rate, based on the amount of water used on a monthly basis. For this rate element, non-residential customers are also credited five hundred cubic feet ("Hcf") before the variable rate commences.

Table 6
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Wastewater Usage Charges-Effective 07/01/2004 through 06/30/2012

<u>Charge Description</u>	<u>Unit Rate</u>	<u>Customer Class</u>
Monthly Fixed Charge/Unit*	\$25.86	Applies to all customer classes
Variable Rate for Non-Residential Only (Applies to water usage beyond 5 hcf/unit)	\$1.20/hcf	Non-residential only

*Unit is dwelling, hotel room, non-residential occupied units, etc.
Source: City of El Paso de Robles.

Usage Rates Effective July 1, 2012. In August 2011, the City contracted with Kennedy/Jenks Consultants to prepare a Wastewater Rate and Revenue Analysis. In order to upgrade the Treatment Plant and comply with regulated discharge requirements, the analysis recommended changing existing Wastewater System usage rates and new connection fees. By Ordinance No. 975 N.S., adopted by the City Council on December 6, 2011, the following usage rates will become effective on July 1, 2012:

Table 7
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Wastewater Usage Charges

<u>Effective Date</u>	<u>07/01/2012</u>	<u>07/01/2013</u>	<u>07/01/2014</u>	<u>07/01/2015</u>	<u>07/01/2016</u>
Usage Charge (\$/HCF*), all customer classes	\$4.50	\$5.40	\$6.30	\$7.35	\$7.80

* HCF is hundred cubic feet, or 748 gallons.
Source: City of El Paso de Robles.

Monthly sewer service charges will be determined as follows:

(a) Single-Family Residences: Monthly wastewater bills for single-family residential customers will be based on the average monthly metered water use from the previous December-January-February billing period (“**Winter Water Use**”) multiplied by the usage charge then in effect. The “Winter Water Use” will establish the maximum usage for the remainder of the year’s wastewater billing; if actual water usage in any one month is less than a customer’s Winter Water Use, that month’s bill will be based on the actual usage multiplied by the usage charge then in effect. Notwithstanding the foregoing, if a customer’s Winter Water Use averages two HCF per month or less, the monthly wastewater bill will be based on the average of two consecutive Winter Water Use periods.

For new service accounts, the initial year’s billing will be based on the then-current median single family residential Winter Water Use, as determined by the City’s Department of Administrative Services, multiplied by the usage charge then in effect. The 2011 median single-family residential Winter Water Use is 7 HCF/month. Condominium units served by individual water meters will be billed as single-family residences.

(b) Multi-Family Dwellings: Multi-family dwellings are buildings comprised of two or more dwelling units under common ownership, such as apartment complexes. Monthly wastewater bills for multi-family dwellings will be based on metered monthly water use multiplied by the usage charge then in effect.

(c) Non-Residential Customers: Wastewater bills for businesses, hotels, schools and other nonresidential uses (i.e. Industrial Users as defined Section 14.08.040 of the City's Municipal Code) will be based on metered monthly water use multiplied by the usage charge then in effect. Non-residential customers may petition the City to have monthly sewer service charges based on something other than metered water use, provided that they meet all of the following conditions:

1. Are served by 3-inch water meter or larger or can demonstrate that average daily discharge to the sewer system exceeds 10,000 gallons per day for at least 6 months out of the year;

2. Can quantify monthly discharges to the sewer system by a means acceptable to the City Public Works Department, as set forth in the rate ordinance;

3. Agree to periodic audits, no more frequently than annually and at customer's expense, to verify sewer discharge measurements;

4. Submit evidence of flow calibration of physical measurement devices annually or more frequently if judged necessary by the City Public Works Director;

5. Provide discharge flow data monthly to the City Department of Administrative Services for the purposes of levying sewer service charges. Failure to timely provide such information will result in sewer service charges being based on metered monthly water use multiplied by the usage charge then in effect; and

6. Obtain a Wastewater Discharge Permit per Section 14.10.210 of the City's Municipal Code.

In the event that estimated average daily discharge to the sewer is less than 10,000 gallons per day for 24 consecutive months or more, sewer billing will revert to metered monthly water use multiplied by the usage charge then in effect.

(d) Landscape and Fire Service Meters: These accounts will not be billed for wastewater service.

(e) Septic Systems: Customers with City water service who are not connected to the City's Wastewater System will not be billed for wastewater service.

(f) Residences with Sewer Service Only: Single-family residential customers who are connected to the City's Wastewater System but are not connected to the City water system will be billed based on the then-current median single-family residential Winter Water Use, as determined by City Department of Administrative Services, multiplied by the usage charge then in effect.

(g) Industrial Users with Sewer Service Only: Non-residential customers (i.e., Industrial Users) that are connected to the City's Wastewater System but are not connected to the City water system must obtain an Industrial Wastewater Discharge Permit per Section 14.10.21 of the City's Municipal Code. Monthly sewer service charges will be based on 1) monthly water usage, as metered from non-City water source, multiplied by the usage charge then in effect, or 2) wastewater flow metering per the Industrial User criteria listed in paragraph (c), above, including requirements for audit by the City, meter calibration, and the timely submittal of flow measurement to the City's Department of Administrative Services. Terms of such flow metering will be documented in the Wastewater Discharge Permit.

The sewer service charges will further be reviewed no less than every two years in conjunction with the update of the City's budget to ensure that the sewer service fees then in existence do not exceed the costs of providing sewer service within the city.

Comparison of User Charges. The following table compares the City's wastewater usage charge effective July 1, 2012 with the average monthly wastewater service charges of certain wastewater service providers in the region, based on winter water use by a single family residence of 7 HCF per month.

Table 8
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Comparison of Wastewater Service Charges
As of November 2011

<u>Area</u>	<u>Single Family Household Wastewater Service Charge</u>
Atascadero	\$20.18
Templeton	23.34
San Miguel	30.90
Paso Robles	31.50
Lompoc	39.06
Soledad	39.75
Cambria	46.10
Nipomo	53.56
San Luis Obispo	61.12
Hollister	86.32

Source: City of El Paso de Robles.

Current Wastewater Facility Charges. The City levies a Wastewater Facility Charge to recover the costs of new development's impact on the Wastewater System. The purpose of this charge is to assure that future customers pay their fair share of system costs, both to recoup costs invested in the existing system and to finance future facilities needed to support growth.

The wastewater facility charges (i.e., connection fees) adopted by the City Council on November 1, 2011, which were effective January 1, 2012, were determined using the capacity buy-in or reimbursement approach. As such, the facility charges reimburse existing ratepayers for any investment in Wastewater System capacity that is available for growth. The ordinance provides for biennial (every two years) review in conjunction with the City's four-year financial plan to ensure that the wastewater facility charges then in existence do not exceed the estimated reasonable cost of providing the public facilities and services for which they are imposed.

**Table 9
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Wastewater Facility Charges – Effective January 1, 2012**

Residential Charges – Per Unit	EDUs	Effective Jan 1, 2012	Effective Jan 1, 2013	Effective Jan 1, 2014	Effective Jan 1, 2015	Effective Jan 1, 2016
Single Family Dwellings, including Condominiums ⁽¹⁾	1	\$6,500	\$7,600	\$8,700	\$9,800	\$10,900
Multi-Family Dwellings ⁽²⁾	0.9	\$5,900	\$6,900	\$7,800	\$8,800	\$9,800

Non-Residential Charges – Per water meter size ⁽³⁾	Water Meter size (inches)	EDUs	Effective Jan 1, 2012	Effective Jan 1, 2013	Effective Jan 1, 2014	Effective Jan 1, 2015	Effective Jan 1, 2016
Non-Residential Accounts – All Types	5/8 & 3/4	1.00	\$6,500	\$7,600	\$8,700	\$9,800	\$10,900
	1	1.67	\$10,900	\$12,700	\$14,600	\$16,400	\$18,200
	1 1/2	3.33	\$21,800	\$25,400	\$29,000	\$32,700	\$36,300
	2	5.33	\$34,900	\$40,700	\$46,500	\$52,300	\$58,100
	3	10.00	\$65,400	\$76,300	\$87,200	\$98,100	\$109,000

- (1) *Condominiums are residential units titled under separate ownership with underlying parcel under common ownership. Condominium units served by individual water meters, mobile homes, pre-fabricated homes, and planned community of detached homes shall be charged as Single Family Dwellings.*
- (2) *For the purposes of assessing wastewater facility charges, Non-Residential Accounts are any accounts not specifically noted as Residential. Non-Residential Accounts include Industrial Users as defined per Section 14.08.040 of the Municipal Code.*
- (3) *Multi-Family Dwellings, as defined in the Paso Robles General Plan Land Use Element, refers to buildings that comprise two or more dwelling units under common ownership; apartment complexes are charged as Multi-Family dwelling unit.*

Comparison of Connection Fees. The following table compares the average monthly wastewater service charges of certain wastewater service providers in the region. **[discuss whether necessary]**

Table 10
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Comparison of Wastewater Facility Charges
As of January 1, 2012

<u>Area</u>	<u>Single Family Household Wastewater Service Charge</u>
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Source: City of El Paso de Robles.

Regulatory Issues

Although the City has a history of non-compliance with applicable regulations and orders, as described below, it is in the process of addressing its non-compliance by construction of improvements to the Treatment Plant. As a result, the City does not believe environmental or regulatory issues will adversely impact its ability to provide sanitary wastewater service as described in this Official Statement.

Regulatory Requirements. Regulatory requirements applicable to the Wastewater System and the Treatment Plant are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the Central Coast Regional Water Quality Control Board (the “**RWQCB**”).

Previous Permit; History of Non-Compliance. The Treatment Plant discharges treated wastewater to the Salinas River, a water of the United States, and was regulated by Order No. R3-2004-0031, which was adopted on May 14, 2004, and expired on May 14, 2009.

A major challenge at the Treatment Plan has been meeting effluent limits for total dissolved solids (“**TDS**”), sodium, and sulfate. High TDS concentration is attributed to the City’s existing drinking water source (which is well water with an average TDS of 530 milligrams per liter (mg/L)) and also the extensive usage of ion exchange water softeners in many homes and businesses within the City. In addition, the Treatment Plan has exceeded the interim limits for copper, selenium, and bis(2-ethylhexyl)phthalate on several occasions. The high levels of copper are attributable to residential copper plumbing. High selenium concentrations in the effluent are due to high concentrations in the source water.

On September 16, 2006, the RWQCB adopted Mandatory Penalty Order No. R3-2006-0083, which assessed the City a penalty of \$36,000 for multiple violations of effluent limitations occurring between July 2004 and February 2006 and for late reporting as required by the Wastewater System's waste discharge requirements. In addition, the City is paying approximately \$9,000 of fines per month pursuant to California Water Code Section 13385, which authorizes civil penalties for violations of applicable regulations.

Current Permit. The City filed a Report of Waste Discharge and submitted an application for renewal of its Waste Discharge Requirements (“WDRs”) and National Pollutant Discharge Elimination System (“NPDES”) permit on November 6, 2008. On May 5, 2011, the RWQCB issued WDR Order No. R3-2011-0002 (Effective June 25, 2011; expiring on June 25, 2016) and NPDES Permit No. CA00047953.

Order No. R3-2011-0002 includes a new effluent limitation for monthly average total nitrogen of 10 mg/L as nitrogen. The City cannot currently meet the new effluent limitation without significant upgrades to the existing Treatment Plant; the proposed improvements to the Treatment Plant include a biological nutrient removal system that will enable the City to meet the new nitrogen effluent limitation. On July 5, 2011, the RWQCB issued Time Schedule Order No. R3-2011-0213 for completion of the proposed improvements to the Treatment Plant (the “Time Schedule Order”), in which the RWQCB found that violations of the final effluent limitation for total nitrogen would not be subject to penalty as long as the City complies with all of the requirements of the Time Schedule Order. The Time Schedule Order requires the City to meet a compliance schedule, which will allow the City to achieve full compliance with the total nitrogen effluent limitation in its NPDES permit. The Time Schedule Order establishes the following schedule:

Project Milestone	Required Completion Date	Status
Adopt ordinance to increase connection fees	November 1, 2011	Complete
Introduce wastewater rate increases and begin Proposition 218 process	January 1, 2012	Complete
Adopt City ordinance to increase wastewater rates	June 1, 2012	Complete
Advertise Treatment Plant upgrade for construction bids	November 1, 2012	
Award contract and issue notice to proceed with construction	February 1, 2013	
Substantial completion of construction	June 1, 2015	
Stabilization and optimization of biological nutrient removal process. Full compliance with effluent limits	September 1, 2015	

The City has a water conservation program, which tends to increase the salinity of wastewater and exacerbate the City's compliance problems. However, the City is in the process of delivering a higher quality water supply from Nacimiento Lake, which will offset the negative impact of water conservation.

Other Requirements. In 2006, the State Water Resources Control Board (“SWRCB”) enacted Order No. 2006-0003, Statewide General Waste Discharge Requirements for Sanitary

Sewer Systems (“WDR”). The WDR requires any public agency that owns or operates a sanitary sewer system more than one mile in length that conveys treated or partially treated wastewater to a publicly owned treatment works in the State of California, comply with the requirements of the WDR in order to reduce the number of Sanitary Sewer Overflows. The City has fully implemented its Sewer System Management Plan and has seen a marked reduction in sewage spills. The City had one small sewage spill and in 2010 and zero in 2011, which, for a system of its size, ranks among the best performing collection systems in California.

Pretreatment. The City’s Wastewater NPDES Permit does not require the development and implementation of a Pretreatment Program. However, the City runs a voluntary pretreatment program and has an Industrial Waste Ordinance. The voluntary program consists of the Industrial Waste Manager and one Water Quality Specialist. Staff time is split between the Storm Water and Wastewater programs. The Water Quality Specialist conducts Fats, Oils and Grease inspections at restaurants and commercial kitchens located within the City limits. Inspections are done to ensure that grease removal devices are being maintained correctly and the fry oil is properly disposed of. The Water Quality Specialist also coordinates with the Building Department to ensure that grease interceptors are properly sized and installed in new facilities and remodels. The Industrial Waste Manager inspects the Significant Industrial Users (“SIUs”) regulated under 40 CFR 403 per the City Ordinance and issues Industrial Wastewater Discharge Permits. Although the City’s Industrial Waste Ordinance gives the City the authority to inspect and permit industrial discharges from SIUs, the Environmental Protection Agency does not recognize the City permits because the City does not have a mandated Pretreatment Program per 40 CFR 403.8. The EPA considers it the responsibility of the industrial user to comply with the requirements.

In addition, the Salinas River in the vicinity of the wastewater treatment plant is impaired for chloride and sodium. The previous permit required the City to initiate certain specific actions, which were identified in a Salt Management Study completed in February 2001, to decrease salt loadings attributable to the discharge to the Salinas River. However, the City has only limited control over the sources of salt loading to the Treatment Plant. In its 2006 Annual Report, the City initiated a number of pretreatment efforts to satisfy the salt reduction requirements of the previous permit, because the most cost effective method for reducing salt loading is source control. The City is now leading development of a regional salt and nutrient management plan for the Paso Robles Groundwater Basin, which will lead to improved salt and nutrient management measures and which will be tailored to the City’s unique environmental setting. This effort will be complete in 2013.

Litigation Relating to the Wastewater System

In July, 2009, four individuals filed an action on behalf of similarly situated individuals and businesses against the City, alleging that sewer and water rate ordinances adopted in 2002 and 2004 were “utility user taxes” which required voter approval under Article XIII C of the California Constitution, and seeking refunds on behalf of themselves and similarly situated individuals and businesses. *John Borst et al. v. City of Paso Robles*, San Luis Obispo County Superior Court, Case No. CV 09-8117. The City demurred on the grounds that (1) the water and sewer rates adopted by the cited ordinances were property-related fees which did not require voter approval; (2) that Health and Safety Code sections 5471 and 5472, coupled with Revenue and Taxation Code sections 5097 and 5140, specifically govern refund procedures for contested water and sewer fees; (3) these sections prohibit the filing of representative class actions, and (4) none of the plaintiffs have paid the water and sewer fees under protest, as required by these sections. A decision on the case was postponed until the California Supreme

Court decided the case of *Ardon v. City of Los Angeles* (2011) 52 Cal.4th 241, which involved a representative class action for a refund of utility user taxes.

Subsequently, in *Ardon*, the California Supreme Court held that representative class actions for refunds could be filed under the Government Claims Act (Code of Civil Procedures Section 900 et seq.) unless a specific statute applied to the charges in question. Because the Health and Safety Code sections cited above apply specifically to water and sewer fees, City intends to file a dispositive motion asking the Superior Court to deny the class claims as well as the individual refunds. **[Discuss: (1) When does the City expect to file its motion and how long would it be for the court to issue a ruling on that motion? (2) Can the City quantify the impact on the system if a court were to hold in favor of the plaintiffs?]**

Existing Debt of the System

Currently, the only outstanding obligation to which Net Revenues are pledged is the obligation of the City to pay the 2002 Installment Payments. The 2002 Installment Payments will be prepaid with Bond proceeds. See "REFINANCING PLAN" above.

In addition, the City entered into a \$695,093 lease purchase agreement dated June 21, 2010 for the acquisition of equipment to be used by the Wastewater System, the City's water system and the City's airport operation. Principal and interest payments are due quarterly, with the last payment due March 21, 2015. Total annual payments attributable to the Wastewater System are \$_____ (the remainder are paid from the water enterprise and the airport enterprise funds of the City) and are accounted for as Operation and Maintenance Costs. The City did not pledge revenues of the Wastewater System under the lease purchase agreement.

Capital Improvement Plan

As described above, improvements to the Treatment Plant are necessary in order for the City to comply with applicable RWQCB orders. See "-Regulatory Issues" above. Improvements to the City's collection and pumping system are also needed.

Future Wastewater System capital improvements have been developed through several studies: the City's Sewer Collection System Master Plan dated January 2007 and the Wastewater Treatment Plant Upgrade Facility Plan dated July 2009. The Master Plan estimates that the collection and pumping element will cost approximately \$32 million and that the Treatment Plant improvement project will cost approximately \$49.5 million.

The City expects to pay capital expenditures for the Wastewater System from sewer service charges and proceeds of Parity Debt, as shown below. The following table does not include additional wastewater treatment and recycled water distribution improvements that will be necessary for introduction of a recycled water program by 2025, as planned. The following table assumes the debt element of the capital improvement plan will be funded by a loan from the State of California with an interest rate of 3.4% over a 20-year term, although the City can provide no assurances that it will be able to obtain such a loan and, if it does, that it will be able to obtain a loan with the assumed interest rate. If it is unable to obtain a loan from the State of California, then the City would most likely utilize the public finance market to finance its capital improvement plan.

Table 11
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Wastewater System Capital Improvement Plan

Fiscal Year	SOURCES OF FUNDS		USES OF FUNDS		Total Planned Capital Expenditures
	Bond Proceeds	Service Charges	Collection System Subtotal	Wastewater Treatment Plan Subtotal	
2009-10	[to come]	[to come]	\$ 710,700	\$ 2,200,000	\$2,910,700
2010-11			1,308,900	1,871,800	3,180,700
2011-12			1,279,500	2,274,300	3,553,800
2012-13			737,000	6,822,800	7,559,800
2013-14			746,500	14,782,700	15,529,200
2014-15			1,047,200	14,782,700	15,829,900
2015-16			1,384,100	6,822,800	8,206,900
2016-17			1,132,600	--	5,295,800
2017-18			5,295,800	--	1,225,000
2018-19			1,225,000	--	1,777,300
2019-20			1,777,300	--	7,258,400
2020-21			7,258,400	--	1,922,400
2021-22			1,922,400	--	1,433,100
2022-23			1,433,100	--	1,490,500
2023-24			1,490,500	--	1,550,100
2024-25			1,550,100	--	1,612,100
2025-26			1,612,100	--	5,295,800
Total			\$31,911,200	\$49,557,100	\$85,631,500

Historical Operating Results

The following table sets forth the historical revenues and expenses for the Wastewater System Fund of the City for fiscal years 2008-09 through 2010-11.

Table 12
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Historical Revenues and Expenses

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Operating Revenues:			
Charges for services	\$4,495,292	\$4,535,599	\$4,663,510
Other	113,603	--	16,514
Total operating revenues	<u>4,608,895</u>	<u>4,535,599</u>	<u>4,680,024</u>
Operating expenses:			
Maintenance, operations, administration	2,929,406	3,247,229	3,397,491
Depreciation and amortization	1,109,724	1,377,291	1,692,814
Total operating expenses	<u>4,039,130</u>	<u>4,624,520</u>	<u>5,090,305</u>
Operating income (loss)	569,765	(88,921)	(410,281)
Nonoperating revenues (expenses):			
Interest revenue	246,712	113,757	27,542
Gain (loss) on disposal of assets	--	(10,566)	(366,395)
Revenues from other agencies	304,040	369,705	--
Interest expense	(334,983)	(329,520)	(343,779)
Total nonoperating revenues (expenses)	<u>215,769</u>	<u>143,376</u>	<u>(682,632)</u>
Income (loss) before transfers and capital contributions	785,534	54,455	(1,092,913)
Interfund transfers and capital contributions:			
Transfers in ⁽¹⁾	--	--	(41,400)
Transfers out	(90,998)	(343,136)	--
Capital contributions	30,180	--	96,675
Connection fees	240,548	156,551	563,921
Change in net assets	965,264	(132,130)	(473,717)
Total net assets- July 1	<u>35,826,337</u>	<u>36,791,601</u>	<u>36,659,471</u>
Total net assets- June 30	\$36,791,601	\$36,659,471	\$36,185,754

(1) **[Discuss 2010-11 negative "Transfer in"]**
Source: City of El Paso de Robles Financial Statements.

The City expects the upgraded Treatment Plant to require more power and staff to operate, so Operation and Maintenance Costs will increase by approximately ___% upon completion. Some of the additional costs will be offset by income from tipping fees for grease and septage receiving.

Historical Debt Service Coverage

The following table sets forth the historical Gross Revenues, Operation and Maintenance Costs, Net Revenues, debt service and debt service coverage for the Wastewater System for fiscal years 2006-07 through 2010-11.

Table 13
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Historical Debt Service Coverage

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Gross Revenues:					
Charges for services					
Other					
Total Gross Revenues					
Operating Expenses:					
Maintenance, operations, administration					
Total Operating Expenses					
Net Wastewater System Revenues					
Series 2002 Installment Payments					
Gross Revenue Debt Service Coverage					
Net Revenue Debt Service Coverage					
Funds Available					
Total Funds Available					
Days Cash on Hand (Sewer Fund Cash/Cash Equivalent)					

Source: City of El Paso de Robles.

Projected Debt Service Coverage

The following table sets forth the City's projected Net Revenues, debt service and debt service coverage for the fiscal years ending June 30, 2012 through June 30, 2016. The projections are based on the following assumptions.

Rate Base Growth: The projections assume [no growth] in the Wastewater System rate base, i.e., number of customers, and no Connection Fee revenue.

Rate adjustments: The projections assume rate increases in wastewater service charges as provided in Ordinance No. 975 N.S., adopted by the City Council on December 6, 2011.

Expenses: The projections assume annual operation and maintenance expenses of the Wastewater System will increase ___% annually. The City expects the upgraded Treatment Plant to require more power and staff to operate, so Operation and Maintenance Costs will increase by approximately 30% upon completion. Some of the additional costs will be offset by income from tipping fees for grease and septage receiving.

Interest earnings: The projections assume annual interest earnings on City funds of \$_____.

Parity Debt: The projections assume no issuance of Parity Debt through fiscal year 2012-13. However, the City expects to incur significant capital expenses for the Treatment Plant over the period shown in the projection table (see “- Capital Improvement Plan” above). The projection assumes the Parity Debt will consist of a loan from the State of California at an interest rate of 3.4% over a 20-year term.

The following table represents the City’s estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. The obligation of the City to pay debt service on the Bonds is limited to Net Revenues and the City is not obligated to apply any other revenues to pay debt service on the Bonds.

**Table 14
CITY OF EL PASO DE ROBLES WASTEWATER SYSTEM
Projected Debt Service Coverage**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Gross Revenues:					
Charges for services					
Other					
Total Gross Revenues					
Operating Expenses:					
Maintenance, operations, administration					
Total Operating Expenses					
Net Wastewater System Revenues					
Bonds Debt Service					
Gross Revenue Debt Service Coverage					
Net Revenue Debt Service Coverage					
Days Cash on Hand (Sewer Fund Cash/Cash Equivalent)					

Source: City of El Paso de Robles.

RISK FACTORS

The following information should be considered by prospective investors in evaluating the Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

The purchase of the Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

Revenues; Rate Covenant

Revenues are dependent upon the demand for wastewater services, which can be affected by population factors, more stringent wastewater standards, wastewater regulations, water conservation, water shortages, or problems with the City's wastewater production, treatment and distribution facilities. 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 services could require an increase in rates or charges in order to comply with the rate covenant. The City's ability to meet its rate covenant is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the Bonds.

City Expenses

There can be no assurance that expenses of the City, including those attributable to the City's operation of the Treatment Plant, will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenant in the Indenture. Such rate increases could drive down demand for wastewater and related services or otherwise increase the possibility of nonpayment of the Bonds.

The City expects the upgraded Treatment Plant to require more power and staff to operate, so Operation and Maintenance Costs will increase by approximately ___% upon completion. Some of the additional costs will be offset by income from tipping fees for grease and septage receiving.

Customer Concentration

Approximately 7% of the total wastewater flow treated by the Wastewater System in fiscal year 2010-11 **[confirm]** was contributed by the Templeton Community Services District. The Templeton Community Services District has notified the City that it is seeking the necessary regulatory approvals to redirect its wastewater to its own treatment plant, which the City expects to occur in approximately three years. **[discuss impact on system net revenues]** See "THE WASTEWATER SYSTEM – Customers of the Wastewater System."

Environmental Regulation

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

See "THE WASTEWATER SYSTEM – Regulatory Issues" for a summary of historical non-compliance by the Wastewater System with applicable regulatory requirements and the City's obligation to undertake a significant modification of the Treatment Plant (involving the issuance of Parity Debt) on the schedule specified in the Time Schedule Order in order to meet its regulatory obligations. The failure of the City to complete the modification of the Treatment Plant on the schedule specified in the Time Schedule Order could result in penalties being levied on the City.

Insurance

The Indenture obligates the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Wastewater System in the event of damage or destruction to such portion of the Wastewater System. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Wastewater System. Significant damage to the Wastewater System could cause the City to be unable to generate sufficient Net Revenues to pay principal of and interest on the Bonds.

Limitations on Remedies Available to Bond Owners

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "- Articles XIIC and XIID of the California Constitution" below. Furthermore, any remedies available to the Owners of the Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bond Owner remedies contained in the Indenture, the rights and obligations under the Bonds and 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 of California 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.

No Debt Service Reserve Fund

The City is not funding a debt service reserve fund for the Bonds, and it is not obligated to fund a reserve fund in connection with the issuance of any Parity Debt.

Parity Debt

The Indenture permits the City to issue additional obligations secured by a pledge of Net Revenues that is on a parity basis to the pledge of Net Revenues to the Bonds (see “SECURITY FOR THE BONDS – Parity Debt” above). **In order to meet applicable regulatory requirements, the City expects to issue approximately \$50 million of Parity Debt in the next five years.** See “THE WASTEWATER SYSTEM – Capital Improvement Plan.”

The coverage tests described in “SECURITY FOR THE BONDS – Parity Debt” involve, to some extent, projections of Net Revenues. If such indebtedness is issued, the debt service coverage for the Bonds could be diluted below what it otherwise would be. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Bonds and any Parity Debt.

The Indenture does not require a deposit to a debt service reserve fund in connection with issuance of Parity Debt.

Natural Disasters; Earthquake Risk

General. From time to time, the City is subject to natural calamities that may adversely affect economic activity in the City, which could have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the Wastewater System, or that the City would have insurance or other resources available to make repairs to the Wastewater System in order to generate sufficient Net Revenues to pay debt service on the Bonds when due.

The casualty and liability insurance maintained by the City may not cover damage and losses to the Wastewater System due to seismic damage or flood.

Seismic. The City, like most regions in California, is an area of significant seismic activity, and therefore, is subject to potentially destructive earthquakes. The Paso Robles area is exposed to seismic hazards from movement along several regional faults. The identified active fault zones in this area are the San Andreas, Nacimiento, Rinconada, and “Offshore Faults,” although the classification of the Rinconada Fault as active has been disputed. Historically, most of the earthquakes detected in the City have originated from movement along the San Andreas Fault, which lies approximately 23 miles northeast of the City. In the Paso Robles Area, the San Andreas Fault is identified as the primary source of potential ground shaking. Magnitudes as high as 6.5 have been recorded twice in the past from movement along the San Andreas. The Nacimiento Fault, which has recorded several recent moderate seismic

events, is located approximately 20 miles west of Paso Robles in the Santa Lucia Range. The Rinconada Fault extends from the northwest to the southeast, and lies within the City. It is the source of small to moderate earthquakes and is considered less of a hazard than the San Andreas and Nacimiento Faults.

The Treatment Plant site is located within a seismically active area of Central California. Three active faults in close proximity to the Treatment Plant site are the Rinconada Fault (2 miles southwest), San Andreas Fault (22 miles east), and Hosgri-San Simeon Fault (24 miles west).

Flood. The Federal Emergency Management Agency (“**FEMA**”) identifies a flood hazard area on its Flood Insurance Rate Map as a Special Flood Hazard Area (“**SFHA**”). A SFHA is defined as the area that will be inundated by the flood event having a 1-percent chance of being equaled or exceeded in any given year. The 1-percent annual chance flood is also referred to as the base flood or 100-year flood. A number of locations in the City are located in SFHAs, including the following zones:

- Zone A (“Areas subject to inundation by the 1-percent-annual-chance flood event generally determined using approximate methodologies. Because detailed hydraulic analyses have not been performed, no Base Flood Elevations (BFEs) or flood depths are shown. Mandatory flood insurance purchase requirements and floodplain management standards apply.”),
- Zone AE (“Areas subject to inundation by the 1-percent-annual-chance flood event determined by detailed methods. Base Flood Elevations (BFEs) are shown. Mandatory flood insurance purchase requirements and floodplain management standards apply.”),
- Zone AH (“Areas subject to inundation by 1-percent-annual-chance shallow flooding (usually areas of ponding) where average depths are between one and three feet. Base Flood Elevations (BFEs) derived from detailed hydraulic analyses are shown in this zone. Mandatory flood insurance purchase requirements and floodplain management standards apply.”)
- Zone AO (“Areas subject to inundation by 1-percent-annual-chance shallow flooding (usually sheet flow on sloping terrain) where average depths are between one and three feet. Average flood depths derived from detailed hydraulic analyses are shown in this zone. Mandatory flood insurance purchase requirements and floodplain management standards apply. Some Zone AO have been designated in areas with high flood velocities such as alluvial fans and washes. Communities are encouraged to adopt more restrictive requirements for these areas.”).

Other areas of the City are located in Zone X (“Area of moderate flood hazard, usually the area between the limits of the 100-year and 500-year floods. Zone X is also used to designate base floodplains of lesser hazards, such as areas protected by levees from 100-year flood, or shallow flooding areas with average depths of less than one foot or drainage areas less than 1 square mile.”).

With respect to the Wastewater System facilities, the only facilities that are subject to flood damage are the polishing ponds at the Treatment Plant. However, these ponds will be eliminated as part of the proposed Treatment Plant upgrade. After the upgrade, there will be a very low threat of flood damage to the Wastewater System’s facilities.

Loss of Tax-Exemption

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

Articles XIIC and XIID of the California Constitution

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

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act". Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIII A and XIIC of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26's amendments to Article XIIC broadly define "tax," but specifically exclude, among other things:

- (1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- (3) A charge imposed as a condition of property development.
- (4) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

Property-Related Fees and Charges. 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.

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

In *Richmond v. Shasta Community Services District* (2004) 32 Cal.4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

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

that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIII C and was therefore invalid.)

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

Articles XIII C and XIII D and the District Water Rates and Charges. The District's current wastewater rates (see "THE WASTEWATER SYSTEM- Current and Historical Rates") was were adopted by resolution of the Board of Directors following notice to property owners and a public hearing held at least 45 days after the notice had been mailed, in compliance with the *Bighorn* decision.

The District believes its water rates and charges do not constitute "taxes" under Article XIII C as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIII C, they are "property-related fees imposed in accordance with the provisions of Article XIII D" (and are also charges for a "property-related service" as defined in subsection 2(g) of Article XIII D) and because, as described in subsection 1(e)(2) of Article XIII C, they are charged for water service, "a specific government service or product provided directly to the payor that is not provided to those not charged."

Conclusion. It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds.

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

Articles XIII C and XIII D and the City Wastewater Rates. The City's wastewater usage rate structure effective July 1, 2012 (see "THE WASTEWATER SYSTEM- Current and Historical Rates" above) was adopted by Ordinance No. 975 N.S. on December 6, 2011. The City took the following actions to meet the requirements of Articles XIII C and XIII D:

- Notices were sent to property owners at least 45 days prior to a scheduled November 15, 2011 public hearing.
- A protest hearing was conducted on November 15, 2011.

The City also complied with Articles XIIC and XIID in connection with the adoption of its Current Wastewater Facility Charge on November 1, 2011.

The City will continue to comply with the provisions of Articles XIIC and XIID in connection with future 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.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness.

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

Secondary Market for Bonds

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

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Certificates to provide certain financial information and operating data relating to the City and the Wastewater System by not later than nine months after the end of the City's fiscal year, or March 31 each year based on the City's current fiscal year-end of June 30, commencing March 31, 2013, with the report for the 2011-12 fiscal year (the "**Annual Report**") and to provide notices of the occurrence of certain enumerated 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 E - FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The City has failed on numerous occasions in the last five years to comply with previous continuing disclosure undertakings. However, the City is currently in material compliance with these undertakings, and the City believes it has undertaken appropriate steps to ensure compliance with its continuing disclosure undertakings in the future. [**confirm**]

LITIGATION

In connection with issuance of the Bonds, the City will certify that there is no litigation pending or, to the City's knowledge, threatened in any way to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Indenture or any proceedings of the City with respect thereto.

Also in connection with issuance of the Bonds, the City will certify that there are no lawsuits or claims pending against the City that will materially affect the City's finances so as to impair the ability to pay principal of and interest on the Bonds when due. See "THE WASTEWATER SYSTEM – Litigation Relating to the Wastewater System" for a summary of pending litigation affecting the Wastewater System.

FINANCIAL STATEMENTS

Moss, Levy & Hartzheim LLP (the "**Auditor**"), audited the financial statements of the City for the Fiscal Year ended June 30, 2011. The Auditor's examination was made in accordance with generally accepted auditing standards and Governmental Auditing Standards, issued by the Comptroller General of the United States. See "APPENDIX A – Audited Financial Statements of the City for Fiscal Year Ended June 30, 2011."

The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City.

RATINGS

It is anticipated that, on the Closing Date, Standard & Poor's Financial Services LLC, a subsidiary of The McGraw Hill Companies, Inc. ("**S&P**") will assign its municipal bond rating of "___" to the Bonds.

The ratings reflect only the views of S&P, and an explanation of the significance of the rating, and any outlook assigned to or associated with these 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 City 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 the rating will continue for any given period of time or that the 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 the rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

TAX MATTERS

Federal Tax Law. In the opinion of Robert M. Haight, Scotts Valley, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the 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 imposed on individuals and corporations, although, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the “**Tax Code**”) that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

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

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

Form of Proposed Opinion. The form of the proposed opinion of Bond Counsel is attached as Appendix D.

CERTAIN LEGAL MATTERS

Robert M. Haight, Scotts Valley, California, Bond Counsel, will render its opinion approving the validity of the Bonds, the form of which opinion is set forth in APPENDIX D hereto. Copies of such approving opinion will be provided to the original purchasers upon delivery of the Bonds. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as counsel the Underwriter. *Payment of the fees and expenses of Bond Counsel and Underwriter’s Counsel is contingent upon issuance of the Bonds.*

Certain matters will be passed upon for the City by the City Attorney, as City Counsel.

UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated DBA Stone & Youngberg, a Division of Stifel Nicolaus (collectively, the “**Underwriter**”). The Underwriter has agreed to purchase the Bonds at a price equal to \$_____, which equals the par amount of the Bonds (\$_____), less an Underwriter’s discount of \$_____, plus a net original issue premium of \$_____. The bond purchase agreement between the City and the Underwriter provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions

set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions.

MISCELLANEOUS

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

CITY OF EL PASO DE ROBLES

By: _____
Treasurer

APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR FISCAL YEAR ENDED JUNE 30, 2011**

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX C

CITY OF EL PASO DE ROBLES GENERAL INFORMATION

The following information regarding the City and the surrounding area is presented as general background data. The Bonds are payable solely from the sources described herein (see "SECURITY FOR THE BONDS"). The taxing power of the City, the County of San Luis Obispo, the State of California or any political subdivision thereof is not pledged to the payment of the Bonds.

The City

The City is located at the confluence of State Highway 101 and State Highway 46 in San Luis Obispo County (the "**County**"), approximately 150 miles south of San Jose and 220 miles north of Los Angeles. The County is located in the central coast area of the State of California. The City continues to be the fastest growing city within the County and has become the County's second largest city with 30,022 residents.

The City is home to a number of special events that attract visitors from over the State. Such events include the Wine Festival, Zinfandel Festival, Paderewski Festival, Pioneer Day, Vine Street Christmas Showcase, Great Western Region Bicycle Rally, Concerts in the Park, California Mid State Fair, Festival of the Arts, Pacific Coast Cutting Horse Association Competition and most recently a stop in the Amgen Tour of California Bike Race, as well as two farmers markets. The operations of the state fairgrounds and its related facilities attract events nearly every weekend during the course of the year. The local wine industry continues to receive considerable recognition for its premium wines. There are over 200 wineries and approximately 300 vineyards growing wine grapes on more the 26,000 acres in the Paso Robles area.

The City was incorporated in 1889 and operates under the Council-Manager form of local government. Four councilpersons are elected on a non-partisan basis, at large for four-year terms with two councilmen elected every two years. The Mayor is elected at large every two years. The Council appoints the City Attorney and City Manager. The City Clerk and City Treasurer are both elected at large for four-year terms. The City provides a full range of services including police and fire protection, library and recreation services, public works including maintenance of all City facilities, streets, parks, airport, and utility operations (sewer, water, and landfill), transit, and development and planning services.

Population

The following table summarizes the City's population in 1990, 2000 and from 2007 through 2011.

Table 1
CITY OF EL PASO DE ROBLES, SAN LUIS OBISPO COUNTY AND STATE OF CALIFORNIA
Population Estimates
(As of January 1)

Year	City of El Paso de Robles	County of San Luis Obispo	State of California
1990	18,583	217,162	29,758,213
2000	24,297	246,681	33,873,086
2007	29,391	262,982	36,399,676
2008	29,602	265,505	36,704,375
2009	29,739	267,537	36,966,713
2010	29,761	269,333	37,223,900
2011	30,022	270,966	37,510,766

Source: California Department of Finance.

Insurance and Self-Insurance Programs

The City is a member of the California Joint Powers Insurance Authority (the "CJPIA"), a risk sharing, self-funded joint powers authority whose membership includes approximately 121 entities. The CJPIA provides program administration, claim servicing, investigation services, legal counsel, and excess coverage to its members. For general and auto liability, the CJPIA provides coverage of \$50 million per occurrence and \$50 million aggregate. For workers' compensation, the coverage is statutory plus any claims over \$2 million are paid under a reinsurance policy. The City also participates in the non-auto property program offered by the CJPIA which provides full replacement coverage for buildings and facilities.

The City is self-insured for property damage to City owned equipment and vehicles except for major equipment; i.e. fire trucks for which the City participates with other public agencies in a special insurance pool. The City purchases specialty policies to cover airport liability and landfill liability & pollution coverage from other sources.

With the dissolution of the Central Coast Cities Self Insurance Fund, the CJPIA agreed to manage the "tail" claims for general liability and workers' compensation for the Self Insurance Fund participants on a voluntarily participation basis. The "tail" claims for Liability have been completed and any remaining funds were transferred to the Worker's Compensation "tail" claims fund. The CJPIA manages the "tail" claims separately from its regular programs. The City has agreed to allow the CJPIA to manage said "tail" claims for workers' compensation. In the case of workers' compensation, the 2011 actuarial study indicated that the City had a fund balance of \$580,740. This amount does not include \$199,200 present value of liability for outstanding claims per the "Actuarial Review of the Workers' Compensation Program" as prepared by Richard Sherman & Associates, Inc. during fiscal year 2011. The City anticipates the "Actuarial Review" will be updated in fiscal year 2011-12.

Retirement Systems

City's Defined Benefit Pension Plan. The City contributes to the California Public Employees Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

The City contributes the employee and employer shares for the Miscellaneous Plan and the Safety Plans. The City of Paso Robles is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by the State statute and the employer contribution rate is established and may be amended by CalPERS. The City's contributions to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009 were \$3,880,547, \$3,468,318, \$3,528,037 respectively, and equal 100% of the required contributions for each fiscal year.

The plans' provisions, benefits and contribution rates in effect at June 30, 2011 are summarized as follows:

	<u>Miscellaneous</u>	<u>Police</u>	<u>Fire</u>
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	55	50	50
Monthly benefits, as % of salary	2.5%	3.0%	2.0%
Required employee contribution rate	8%	9%	9%
Required employer contribution rate	15.618%	25.994%	15.428%
Total current covered payroll	\$7,809,528	\$2,613,242	\$2,037,996
Required employee contributions made	624,762	235,198	183,425
Required employer contributions made	1,843,454	679,286	314,422

Total current payroll for covered employees for the year ended June 30, 2011 was \$12,460,766 and the total payroll for all employees was \$13,727,369.

Post Employment Benefits. In addition to the pension benefits described above, the City Council has adopted resolutions making health care insurance benefits available for all retired full time City employees regardless of bargaining affiliation if they so desire. Providing health care benefits under the City's group health plan may provide benefits at a substantially lower cost than if the retirees purchased their own individual benefit. This obligation to make coverage available under the City's group health plan is discontinued at such time as the retiree reaches age sixty-five or receives health insurance coverage from another employer. In accordance with adopted wage and benefit agreements, the City contributes toward retiree health insurance premiums as follows: 1) Management, Police, Fire, and SEIU employees receive up to \$500 per month. The City contributions may be used to defray premium cost for either the City provided plan(s) or other plan(s) secured by retiree. Each retiree choosing to receive City provided health care insurance must reimburse the City the full premium cost that exceed the City's contribution as detailed above.

In April 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans. Statement No. 43 establishes uniform financial reporting standards for post-employment healthcare and other nonpension benefits ("OPEB") plans. The approach followed in Statement

No. 43 is generally consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. Statement No. 43 is applicable to the City for the fiscal year ending June 30, 2009.

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

As required, the City has adopted GASB 43/45 beginning with fiscal year 2008-09.

The City is required to record the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC rate as a percent of annual covered payroll is to be determined. The City's annual required contributions and actual contributions for the years ended June 30 are set forth below:

Annual Pension Cost (Employer Contribution)					
Fiscal Year Ended June 30	Annual OPEB Cost	Actual Contribution	ICMA Trust Balance*	Net OPEB Asset	% of APC Contributed
2009	\$ 590,737	\$ 419,851	\$ 838,806	\$ 248,069	71%
2010	590,737	477,396	1,208,840	27,366	81
2011	636,687	477,396	1,675,786	(142,375)	75

* Pre-funded retiree healthcare costs in irrevocable trust.
 Source: Basic Financial Statements (fiscal year 2010-11).

Funding Status. The funded status of the plan as of June 30, 2011, is as follows:

Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2008	\$5,053,094	\$ 652,905	\$4,400,189	13%	\$13,864,493	32%
6/30/2010	6,282,007	1,208,840	5,073,167	19	14,300,837	35

Source: Basic Financial Statements (fiscal year 2010-11).

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the

historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010, actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a six percent investment rate of return and the plan unfunded actuarial accrued liability is being amortized over a 30-year amortization period

City's Investment Policy

Cash balances from all City funds are combined and invested pursuant to the City Council's adopted Investment Policy and State Government Code Section 53647. Authorized investments include securities of the United States Government or its agencies, certificates of deposit, the State of California Local Agency Investment Fund (LAIF), bankers' acceptances, negotiable certificates of deposit, and repurchase agreements. The earnings from these investments are allocated monthly to each fund based upon the closing balance of each fund at month end. All enterprise fund investments are considered to be liquid investments for cash flow and reporting purposes. Funds held by outside fiscal agents under the provisions of bond indentures that are maintained separately and interest income earned on said funds are credited directly to the bond fund or reported as if the interest was credited directly to said funds.

According to the City's Monthly Treasurer's Report December, 2011, the City's investment portfolio as of December 31, 2011 are summarized as follows:

	Portfolio Par Value	Portfolio Market Value	Portfolio Book Value	Monthly Weighted Ave. Coupon	Monthly Weighted Ave. Yield	Monthly Weighted Ave. Maturity	Percent of Portfolio (Par Value)
Certificates of Deposit	\$ 1,884,000	\$ 1,884,000	\$ 1,884,000	1.305	1.293	0.73	0.031
LAIF	9,349,000	9,349,000	9,349,000	0.382	0.382	0.00	0.154
CalTrust Money Market	3,000,000	3,000,000	3,000,000	0.510	0.510	0.00	0.049
Rabo Bank Money Market	3,000,000	3,000,000	3,000,000	0.048	0.048	0.00	0.049
Corporate Notes	1,000,000	1,020,230	1,000,000	4.000	3.945	0.12	0.016
Federal Agency Coupon Securities	40,000,000	40,178,701	39,997,321	1.660	1.766	3.94	0.660
Federal Agency Passthrough Securities	2,380,030	2,475,654	2,491,842	4.618	2.077	1.51	0.-39
Total	\$60,613,030	\$60,907,585	\$60,722,164	1.468	1.502	2.98	1.000

Source: City's Monthly Treasurer's Report December 2011

History of Taxable Transactions

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and 2010 is not comparable to that of prior years.

A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2010 in the City were reported to be \$447,126,000, a 6.74% increase over the total taxable sales of \$418,900,000 reported during the first three quarters of calendar year 2009. Annual figures are not yet available for 2010.

Table C-3
CITY OF EL PASO DE ROBLES
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
2005	561	590,765	1,386	681,878
2006	599	600,187	1,409	719,733
2007	605	588,822	1,432	692,867
2008	634	523,520	1,377	637,471
2009 ⁽¹⁾	793	472,352	1,243	571,661

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
Source: *State of California, Board of Equalization.*

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2010 in the County were reported to be \$2,679,250,000, a 4.58% increase over the total taxable sales of \$2,561,910,000 reported during the first three quarters of calendar year 2009. Annual figures are not yet available for 2010.

TABLE C-4
COUNTY OF SAN LUIS OBISPO
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
2005	3,807	\$3,005,653	9,759	\$3,936,458
2006	3,999	3,128,592	9,750	4,220,436
2007	4,010	3,054,859	9,857	4,267,639
2008	4,228	2,827,545	10,040	3,974,226
2009 ⁽¹⁾	6,229	2,495,350	9,412	3,442,431

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
Source: *State of California, Board of Equalization.*

Major Employers

The following table lists the major employers within the City and their estimated number of employees:

**Table C-5
CITY OF EL PASO DE ROBLES
Major Employers
As of June 30, 2011**

Employers	Approximate Number of Employees	Industry Type
Paso Robles Joint Unified	650	School District
California Mid State Fair	600	State Fair
Cuesta College - North Campus	564	College
Division of Juvenile Justice	500	Correctional Facility
Walmart	312	Retail
California Portland Construction	300	Construction
City of Paso Robles	240	City Government
Wilkins	201	Water & Wastewater Control Products
Joslyn-Sunbank Corporation	200	Electrical Connector Manufacturer
Paris Precision Products	200	Sheet Metal Manufacturer
Sierra Delta Corp	200	Agricultural Consultants
Specialty Silicone Fabricators	200	Medical Silicone Manufacturer
Wilkins - Regulator Division	170	Water & Wastewater Control Products
Meridian Vineyards	160	Vineyard
Applied Technologies	150	Oil Technology Products Manufacturer
Jack in the Box	146	Restaurant
Ennis Inc	140	Business Forms & Systems Manufacturer
Albertson's	120	Grocery
JIT Manufacturing	100	Electronic Manufacturing Services Provider
Paso Robles Public School After	100	After School Program

Source: City of El Paso de Robles, Comprehensive Annual Financial Report (CAFR), June 30, 2011.

Employment and Industry

The City is included in the San Luis Obispo—Paso Robles Metropolitan Statistical Area. The following table summarizes the civilian labor force, employment and unemployment, as well as employment by industry, in the County for the calendar years 2006 through 2010. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

Table C-6
COUNTY OF SAN LUIS OBISPO
Civilian Labor Force, Employment and Unemployment by Industry
(Annual Averages)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Civilian Labor Force ⁽¹⁾	132,700	134,300	136,500	136,300	136,200
Employment	127,500	128,600	128,700	124,000	122,300
Unemployment	5,200	5,700	7,800	12,300	13,800
Civilian Unemployment Rate	3.9%	4.3%	5.7%	9.0%	10.2%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	4,300	4,500	4,400	3,800	3,800
Mining, Logging and Construction	8,200	7,600	6,600	5,300	4,900
Manufacturing	6,300	6,100	6,200	5,700	5,800
Wholesale Trade	2,600	2,700	2,600	2,400	2,500
Retail Trade	14,300	14,200	13,800	12,900	12,900
Transportation, Warehousing and Utilities	3,800	4,100	3,900	3,600	3,600
Information	1,500	1,400	1,400	1,200	1,200
Finance and Insurance	2,700	2,500	2,400	2,400	2,300
Real Estate, Rental and Leasing	2,200	2,100	1,800	1,600	1,600
Professional and Business Services	9,500	9,800	9,700	9,300	9,800
Educational and Health Services	10,800	11,100	11,400	11,300	11,300
Leisure and Hospitality	15,000	15,700	15,400	15,000	14,700
Other Services	4,300	4,500	4,500	4,600	4,500
Federal Government	600	700	700	600	700
State Government	9,300	9,400	9,700	9,800	9,600
Local Government	12,300	12,200	13,000	11,800	10,600
Total All Industries ⁽³⁾	107,600	108,500	107,400	101,400	99,900

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

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

(3) Totals may not add due to rounding.

Source: Labor Division of the California State Employment Development Department.

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 2006 through 2010.

Table C-7
CITY OF EL PASO DE ROBLES
Effective Buying Income
As of January 1, 2006 through 2010

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2006	City of El Paso de Robles	\$499,288	\$40,277
	San Luis Obispo County	5,513,603	43,514
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of El Paso de Robles	\$525,413	\$41,226
	San Luis Obispo County	5,758,975	44,379
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of El Paso de Robles	\$553,160	\$43,064
	San Luis Obispo County	6,199,295	46,758
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of El Paso de Robles	\$596,535	\$44,582
	San Luis Obispo County	6,430,446	47,820
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of El Paso de Robles	\$553,703	\$42,438
	San Luis Obispo County	5,870,496	44,732
	California	801,393,028	47,177
	United States	6,365,020,076	41,368

Source: The Nielsen Company (US), Inc.

Construction Activity

Provided below are the building permits and valuations for the City of El Paso de Robles and Santa Clara County for calendar years 2006 through 2010.

Table C-8
CITY OF EL PASO DE ROBLES
Total Building Permit Valuations
(Valuations in Thousands of Dollars)

	2006	2007	2008	2009	2010
<u>Permit Valuation</u>					
New Single-family	\$39,769.9	\$11,053.4	\$5,094.4	\$7,946.7	3,770.9
New Multi-family	2,592.0	186.0	742.0	428.7	6,937.2
Res. Alterations/Additions	4,103.4	2,743.3	1,919.7	1,536.4	1,125.0
<i>Total Residential</i>	46,465.3	13,982.7	7,756.0	9,911.7	11,833.1
New Commercial	18,407.0	7,391.3	8,839.8	12,869.9	7,000.7
New Industrial	377.0	5,034.3	458.3	1,071.8	9,997.5
New Other	5,373.8	1,585.3	2,755.4	691.4	2,908.5
Com. Alterations/Additions	11,599.7	12,234.5	4,629.4	4,442.0	6,352.5
<i>Total Nonresidential</i>	35,757.4	26,245.4	16,682.9	19,075.2	26,259.1
<u>New Dwelling Units</u>					
Single Family	174	44	18	32	14
Multiple Family	27	2	6	2	81
Total	201	46	24	34	95

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX D
FORM OF BOND COUNSEL OPINION

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the City of El Paso de Robles (the “City”) in connection with the issuance of the \$_____ aggregate principal amount of City of El Paso de Robles 2012 Wastewater Revenue Refunding Bonds (the “Bonds”). The Bonds are being issued under an Indenture of Trust dated as of March 1, 2012 (the “Indenture”) between the City and Union Bank, N.A., 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 Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

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 have the following meanings:

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

“*Annual Report Date*” means the 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 a Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation. The Trustee will be the initial Dissemination Agent.

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

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

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

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

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as 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, 2013, with the report for the 2011-12 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 below. 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 and the Participating Underwriter, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

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

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

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) The City's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) Principal amount of Bonds outstanding.

(ii) The information for the most recently completed fiscal year in the form of Tables 2, 3, 4, 5 and 13 (for the most recently completed fiscal year only).

(iii) A summary of any changes in the City's wastewater service charges and connection fees since the date of the previous Annual Report.

(iv) A description of any Parity Debt issued during the most recently completed fiscal year.

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

(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 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 obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(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) or (a)(14) 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, and the Participating Underwriter in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

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 Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a 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 such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Trustee will initially act as the Dissemination Agent.

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

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual 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. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the 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. Duties, Immunities and Liabilities of Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure

Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Notices. Any notice or communications to be given under this Disclosure Certificate may be given as follows:

To the Issuer: City of El Paso de Robles
1000 Spring Street
Paso Robles, CA, 93446
Attention: City Manager

To the Participating Underwriter: Stone & Youngberg,
a Division of Stifel Nicolaus
515 South Figueroa St, Ste 1800
Los Angeles, CA 90071
Attn: Municipal Finance

To the Trustee/Dissemination Agent: Union Bank, N.A.
350 California Street, 11th Floor
San Francisco, CA 94104
Attn: Corporate Finance

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2012

CITY OF EL PASO DE ROBLES

By _____
Treasurer

Acknowledged and Accepted:

UNION BANK, N.A., as Dissemination
Agent

By _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of El Paso de Robles

Name of Bond Issue: City of El Paso de Robles 2012 Wastewater Revenue Refunding Bonds

Date of Issuance: _____, 2012

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated _____, 2012. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____
Its: _____

cc: Trustee and Participating Underwriter

APPENDIX F

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BOND PURCHASE CONTRACT

\$ _____
City of El Paso de Robles, California
2012 Wastewater Revenue Refunding Bonds

_____, 2012

City of El Paso de Robles
 1000 Spring Street
 El Paso de Robles, CA 93446

Ladies and Gentlemen:

The undersigned (the "**Underwriter**"), hereby offers to enter into this Bond Purchase Contract (this "**Bond Purchase Contract**") with the City of El Paso de Robles (the "**City**"), which upon acceptance of this offer by the City, will be binding upon the City and the Underwriter. This offer is made subject to its acceptance by the City by execution and delivery of this Bond Purchase Contract to the Underwriter by 11:59 p.m., Pacific Time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon written notice to the City at any time prior to acceptance hereof by the City.

SECTION 1. *Purchase and Sale of Bonds.* (a) Subject to the conditions, and upon the basis of the representations, warranties and covenants hereinafter set forth, the Underwriter hereby agrees to purchase from the City, and the City hereby agrees to sell to the Underwriter, all (but not less than all) of the above-titled bonds (the "**Bonds**") at a price of \$_____ (which price is equal to the aggregate principal amount of the Bonds, *plus* net original issue premium of \$_____ and *less* an Underwriter's discount of \$_____).

The Bonds are being issued under the provisions of Articles 10 and 11 of Part 1 of Division 2 of Title 5 of the California Government Code (the "**Bond Law**") and an Indenture of Trust (the "**Indenture**") dated as of March 1, 2012, between the City and Union Bank, N.A., Los Angeles, California, as trustee (the "**Trustee**").

The Bonds are being issued to (i) defease and prepay an existing obligation of the City to make certain installment payments (the "**2002 Installment Payments**") under an Installment Sale Agreement dated as of October 1, 2002 (the "**2002 Installment Sale Agreement**") and cause a concurrent defeasance and redemption of the 2002 Installment Sale Revenue Bonds (Sewer Enterprise Project) (the "**2002 Authority Bonds**"), issued by the El Paso de Robles Public Financing Authority (the "**Authority**") pursuant to an Indenture of Trust dated as of October 1, 2002 (the "**2002 Indenture**"), and (ii) pay the costs of issuing the Bonds.

Proceeds of the Bonds intended to prepay the installment payments due under the 2002 Installment Sale Agreement and redeem the 2002 Authority Bonds will be transferred to Union Bank, N.A., in its capacity as trustee for the 2002 Authority Bonds (the "**2002 Trustee**"), for

deposit in the redemption fund related to the 2002 Authority Bonds (the “**2002 Redemption Fund**”).

(b) The Bonds shall be as described in the Preliminary Official Statement, dated _____, 2012, relating to the Bonds (the "**Preliminary Official Statement**"). In connection with distribution of the Preliminary Official Statement, the City will execute a certificate in the form attached hereto as Exhibit B.

The Bonds shall be dated their date of issuance and shall mature on the dates, bear interest at the rates per annum, and be subject to redemption prior to maturity as set forth in Schedule A hereto.

As provided in the Indenture, the Bonds will be special obligations of the City payable solely from the Net Revenues (as defined in the Indenture) derived from the Wastewater System and amounts on deposit in certain funds and accounts held under the Indenture.

A final Official Statement, dated the date hereof and in the form of the Preliminary Official Statement with such additions and changes as shall be accepted by the Underwriter and the City (the "**Official Statement**"), signed on behalf of the City by its authorized signatory, shall be delivered by the City to the Underwriter on the Closing Date (defined below). The Preliminary Official Statement and the Official Statement shall each be deemed to include their respective cover pages, and all summary statements, appendices, other materials included with or attached to each of them and any amendments or supplements thereto.

The Indenture, the Continuing Disclosure Certificate (described below) and this Bond Purchase Contract are referred to herein collectively as the "**Financing Agreements.**" All capitalized terms used and not defined herein shall have the meanings assigned to such terms in the Indenture.

(c) The Underwriter agrees to make an initial bona fide public offering of the Bonds at a price or prices (or yield or yields) not in excess of the public offering price or prices (or yield or yields) set forth in the Official Statement, and may subsequently change such offering price or prices (or yield or yields). The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at a price or prices lower (or yield or yields higher) than the public offering price or prices (or yield or yields) set forth in the Official Statement. The Underwriter also reserves the right to (i) over-allot or effect transactions that stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market and (ii) discontinue such stabilizing, if commenced, at any time without prior notice.

(d) The City hereby authorizes the Underwriter to use copies of the Preliminary Official Statement and the Official Statement and copies of the forms of the Indenture and the Continuing Disclosure Certificate in connection with the public offering and sale of the Bonds. The City further agrees not to supplement or amend, cause to be supplemented or amended or agree to any supplement or amendment of the Preliminary Official Statement (except as contemplated by the Official Statement) or the Official Statement at any time prior to the Closing without the prior written consent of the Underwriter. The City ratifies and consents to the distribution and use of the Preliminary Official Statement by the Underwriter prior to the date hereof, and hereby represents that pursuant to the executed certificate attached hereto as Exhibit A, the Preliminary Official Statement was "deemed final" by the City as of the date thereof within the meaning of paragraph Rule 15c2-12 of the Securities and Exchange Act of

1934, as amended ("**Rule 15c2-12**"), except for the omission of such information as may be permitted by Rule 15c2-12.

(e) The City agrees that there shall be delivered to the Underwriter, within seven (7) business days of the date hereof, sufficient copies of the Official Statement, as requested by the Underwriter to comply with the requirements of Rule 15c2-12, and with the requirements of Rule G-32 of the Municipal Securities Rulemaking Board.

(f) If, at any time prior to the date twenty-five (25) days following the later of the Closing Date or the date the Underwriter no longer retains, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public, which date shall be provided to the City by written notice of the Underwriter (the "**End of the Underwriting Period**"), any event of which the City has knowledge shall occur which might or would cause the Official Statement to contain an untrue statement of a material fact or to omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the City will promptly notify the Underwriter in writing of the circumstances and details of such event. If, as a result of such event or any other event, it is necessary, in the opinion of the Underwriter, the City or their respective counsel, to amend or supplement the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, the City will forthwith cooperate with the Underwriter in the prompt preparation and furnishing to the Underwriter of a reasonable number of copies of an amendment of or a supplement to the Official Statement, in form and substance reasonably satisfactory to the Underwriter, which will so amend or supplement the Official Statement so that, as amended or supplemented, it will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(g) The City will undertake to provide certain annual financial information and notices of the occurrence of certain events, if material, pursuant to a Continuing Disclosure Certificate dated the date of issuance of the Bonds (the "**Continuing Disclosure Certificate**"). A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

SECTION 2. *Closing.* At 8:00 a.m., California time, _____, 2012, or at such other time on such earlier or later date as shall have been mutually agreed upon by the City and the Underwriter, the City will deliver or cause to be delivered to the Underwriter the Bonds duly authenticated by the Trustee, together with the other documents hereinafter mentioned, and the Underwriter will accept such delivery and pay the purchase price of such Bonds as set forth in Section 1 hereof by federal funds wire. The consummation of the purchase and delivery of such Bonds as aforesaid shall be made at the offices of Robert M. Haight, Scotts Valley, California, as bond counsel ("**Bond Counsel**"), or at such other place as shall be agreed upon by the City and the Underwriter; provided, the Bonds will be delivered in New York, New York through the facilities of The Depository Trust Company. Such purchase and delivery is herein called the "**Closing**" and the date and time of the Closing is herein called the "**Closing Date.**"

The Bonds shall be executed, authenticated and delivered under and in accordance with the provisions of this Bond Purchase Contract and the Indenture. The Bonds shall be in definitive form, shall bear CUSIP numbers, and shall be fully-registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company, with one bond for each maturity of the Bonds in the principal amount of such maturity. The Bonds shall be made

available to the Underwriter for purposes of inspection at least two business days before the Closing Date.

SECTION 3. *Representations and Warranties.* (a) The Underwriter hereby represents that it has full power and authority to enter into this Bond Purchase Contract, that the execution, delivery and performance of this Bond Purchase Contract and the purchase of the Bonds contemplated herein have been duly authorized by the Underwriter, and that this Bond Purchase Contract, upon due authorization, execution and delivery by the City, will be a valid and binding obligation of the Underwriter.

(b) The City, by its acceptance hereof, represents, warrants, covenants and agrees with the Underwriter as follows:

(1) The City is a general law city and municipal corporation organized and existing under the constitution and laws of the State of California, and the City Council of the City, by adoption of a resolution on February 21, 2012 (the "**Bond Resolution**"), has duly approved the execution and delivery of the Financing Agreements and the Official Statement and the issuance of the Bonds, and the City has full right, power and authority to execute, deliver and perform its obligations under the Financing Agreements and to carry out and consummate the transactions contemplated by the Financing Agreements.

(2) The City has, on or before the date hereof, duly adopted the Bond Resolution and taken all action necessary to be taken by it prior to such date for (A) the issuance, sale and delivery of the Bonds upon the terms and conditions and for the purposes described herein, in the Indenture and in the Official Statement, (B) the execution and delivery of the Financing Agreements and performance of its obligations thereunder, (C) the authorization of the distribution of the Preliminary Official Statement and the approval, execution, delivery and distribution of the Official Statement, and (D) the carrying out of, giving effect to, consummating and performing the transactions and obligations contemplated to be performed by it by the Financing Agreements and by the Official Statement, provided that no representation is made with respect to compliance with the securities or "Blue Sky" laws of the various states of the United States, and such resolution has not been amended, modified or repealed and is in full force and effect on the date hereof.

(3) The delivery of the Preliminary Official Statement and the execution and delivery by the City of the Financing Agreements and the Official Statement, the compliance by it with the terms, conditions or provisions hereof and thereof, and the consummation on its part of the transactions herein and therein contemplated do not and will not, in any respect material for the performance by the City of its obligations under the Financing Agreements, conflict with or constitute a breach of or a default under nor contravene any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor does any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, deed of trust, resolution, agreement or other instrument in any respect material to the performance by the City of its obligations under the Financing Agreements, except as provided in the Financing Agreements and the Official Statement.

(4) Except as may be required under Blue Sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory authority having jurisdiction over the City required for the execution, delivery and sale of the Bonds or the consummation by the City of the transactions contemplated by the Financing Agreements or the Official Statement, which has not been duly obtained or made on or prior to the date hereof.

(5) Except as described in the Official Statement, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board or body pending against or, to the best knowledge of the City, threatened against or affecting the City wherein an unfavorable decision, ruling or finding would adversely affect (A) the validity or enforceability of, or the authority or ability of the City to perform its obligations under, the Financing Agreements or (B) the transactions contemplated to be performed by it under the Financing Agreements or by the Official Statement.

(6) The City is not in default as to the payment of principal or interest with respect to an obligation issued or incurred by the City and involving expenditure by the City in excess of \$100,000.

(7) The City will cooperate with the Underwriter in the qualification of the Bonds for offering and sale and the determination of the eligibility of the Bonds for investment under the laws of such jurisdictions as the Underwriter shall designate, and will use its best efforts to continue such qualification in effect so long as required for the distribution of the Bonds by the Underwriter, provided that the City shall not be required to take any action which would subject it to service of process or to register as a foreign corporation in any jurisdiction where it is not now so subject (and it is understood that the City is not responsible for compliance with or the consequences of failure to comply with applicable "Blue Sky" laws).

(8) The information contained in the Preliminary Official Statement and Official Statement (except with respect to DTC and the book-entry system), as of its date and the date hereof, did not, does not and will not, as of the Closing Date, contain any untrue statement of a material fact and did not, does not and will not, as of the Closing Date, omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(9) After the Closing Date and prior to the End of the Underwriting Period, the City will not participate in the issuance of any amendment of or supplement to the Official Statement which, after being furnished with a copy, the Underwriter shall object in writing or which shall be reasonably disapproved of by counsel for the Underwriter.

(10) The proceeds from the sale to the Underwriter of the Bonds will be applied in the manner and for the purposes specified in the Financing Agreements, and the prepayment of the 2002 Installment Payment and the redemption of the 2002 Bonds shall be undertaken in compliance with the 2002 Installment Sale Agreement and the 2002 Indenture so as to cause defeasance of the City's obligations under the 2002 Installment Sale Agreement and defeasance of the 2002 Authority Bonds on the date of issuance of the Bonds.

(11) The City covenants that it will not take any action that would cause (i) the interest payable with respect to the Bonds to be included in gross income for federal

income tax purposes or (ii) interest payable with respect to the Bonds to be subject to State of California personal income taxes.

(12) Any certificate of the City delivered to the Underwriter in connection with the transactions contemplated by the Official Statement and this Bond Purchase Contract shall be deemed a representation by the City to the Underwriter as to the statements made therein.

(13) Other than the pledge under the 2002 Installment Sale Agreement, which will be defeased concurrent with issuance of the Bonds, there is no other lien or encumbrance on the Net Revenues.

(14) (i) The Preliminary Official Statement heretofore delivered to the Underwriter is deemed final by the City as of its date and as of the date hereof, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12.

(ii) Except as disclosed in the Preliminary Official Statement, the City has not previously failed to comply with any continuing disclosure obligation undertaken pursuant to Rule 15c2-12.

(15) No consent is required from the City's auditor to include the City's June 30, 2011 audited financial statements in the Preliminary Official Statement or final Official Statement.

SECTION 4. *Conditions to the Obligations of the Underwriter.* The obligations of the Underwriter under this Bond Purchase Contract have been undertaken in reliance on, and shall be subject to, the due performance by the parties hereto of their respective obligations and agreements to be performed hereunder, and on and as of the date of delivery of this Bond Purchase Contract and on and as of the Closing Date. The obligations of the Underwriter hereunder to accept delivery of and pay for the Bonds at the Closing are also subject, in the discretion of the Underwriter, to the following further conditions:

(a) At the time of the Closing, (i) the Bond Resolution and the Financing Agreements shall be in full force and effect and shall not have been rescinded, amended, modified or supplemented, except as may have been agreed to by the Underwriter, and the City shall have adopted or executed and delivered, as the case may be, and there shall be in full force and effect such additional resolutions, agreements, opinions and certificates, which resolutions, agreements, opinions and certificates shall be reasonably satisfactory in form and substance to the Underwriter, and there shall have been taken in connection therewith and in connection with the issuance of the Bonds all such action as shall, in the opinion of the Underwriter, be necessary in connection with the transactions contemplated hereby, (ii) the Bonds shall have been duly issued, authenticated and delivered, (iii) the Preliminary Official Statement and Official Statement shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and (iv) the City shall perform or have performed all of its obligations under or specified in the Financing Agreements to be performed by the City at or prior to the Closing.

(b) On the Closing Date, there shall be delivered to the Underwriter in form satisfactory to the Underwriter:

(i) Executed counterparts of the Financing Agreements, certified copies of the Bond Resolution, and such other documents and certificates as the Underwriter or its counsel may reasonably require in order to evidence the accuracy or satisfaction of any of the representations, warranties or conditions herein contained.

(ii) An approving opinion of Bond Counsel, substantially in the form attached as Appendix D to the Official Statement, and a letter from Bond Counsel addressed to the Underwriter expressly permitting the Underwriter to rely on such final approving opinion as if the Underwriter was an addressee thereof.

(iii) A supplemental opinion of Bond Counsel dated the Closing Date, addressed to the Underwriter, to the effect that:

(A) The City has duly and validly executed the Bond Purchase Contract, and the Bond Purchase Contract constitutes the legal, valid and binding agreement of the City, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases.

(B) The Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended.

(C) The statements contained in the Preliminary Official Statement and the Official Statement under the captions " THE BONDS" (other than the information relating to the book-entry only system), "REFINANCING PLAN," "SECURITY FOR THE BONDS," "TAX MATTERS," in "APPENDIX B – Summary of Certain Provisions of the Indenture," and in "APPENDIX D – Form of Bond Counsel Opinion," insofar as such statements purport to summarize certain provisions of the Bonds, the Indenture, the provisions of the 2002 Installment Purchase Agreement and the 2002 Indenture and the opinion of Bond Counsel are accurate in all material respects.

(iv) A letter of Jones Hall, A Professional Law Corporation, as counsel to the Underwriter and dated the Closing Date, to the effect that no information came to the attention of the attorneys in such firm rendering legal services which caused such firm to believe that the Official Statement as of its date (except for any financial or statistical or engineering data or forecasts, numbers, charts, estimates, projections, assumptions or expressions of opinion or any information about book-entry or The Depository Trust Company included therein, as to which no opinion or view need be expressed) contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(v) A certificate, dated the Closing Date, signed by an authorized official of the City, and in form and substance satisfactory to the Underwriter, to the effect that:

(A) Except as described in the Official Statement, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board or body pending or, to the best knowledge of the City based on reasonable inquiry, threatened against or affecting the City wherein an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of, or the authority or ability of the City to perform its obligations under, any of the Financing Agreements or the transactions contemplated to be performed by it as described in the Official Statement, or which would restrain or enjoin the sale, execution or delivery of the Bonds or in any way contest or affect the validity of the Bonds, the proceedings of the City taken with respect to the issuance, delivery or sale thereof, the pledge or application of any moneys or securities provided for the payment of the Bonds and the existence or powers of the City or the title of any officers of the City to their respective positions.

(B) The representations and warranties of the City contained in this Bond Purchase Contract are true and correct in all material respects on and as of the Closing Date.

(C) The City has complied, or is presently in compliance, with all agreements and has satisfied all conditions on its part to be observed or satisfied under the Financing Agreements at or prior to the Closing Date.

(D) The information and statements in the Official Statement (except with respect to DTC and the book-entry system) do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(vi) An opinion of the City Attorney, dated the Closing Date, to the effect that:

(A) The City is a general law city duly organized and validly existing under the Constitution and the laws of the State of California;

(B) The City has full legal power and lawful authority to enter into the Financing Agreements;

(C) The Financing Agreements have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding agreements of the City enforceable against the City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally;

(D) The Bond Resolution, approving and authorizing the execution and delivery of the Financing Agreements and approving the Official Statement, was duly adopted at a meeting of the City Council called and held pursuant to law and with all public notice required by law and at

which a quorum was present and acting throughout and the Bond Resolution is in full force and effect and has not been modified, amended or rescinded;

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

(F) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for the City to enter into the Financing Agreements, or to perform its obligations thereunder;

(G) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the Financing Agreements or seeking to restrain or enjoin the City's obligations under the Financing Agreements or in any way contesting or affecting the validity of the Financing Agreements or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the Financing Agreements, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City, or which, in any manner, questions or affects the right or ability of the City to enter into the Financing Agreements or affects in any manner the right or ability of the City to pay debt service on the Bonds;

(H) Nothing has come to the attention of such counsel which would lead it to believe that the Official Statement (excluding therefrom the financial and statistical data and forecasts included therein and information about the Insurer and The Depository Trust Company, as to which no opinion need be expressed) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(vii) An opinion of counsel to the Trustee, dated the Closing Date, to the effect that:

(A) The Trustee is a national banking association duly organized and existing under the laws of the United States of America and has duly authorized, executed and delivered the Indenture and by all proper action has authorized acceptance of the trusts created thereunder.

(B) The Indenture constitutes a legally valid and binding obligation of the Trustee, enforceable against the Trustee in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws or equitable principles relating to or limiting creditors' rights generally.

(C) The Bonds have been validly authenticated by the Trustee.

(D) The Trustee has duly authorized, executed and delivered the Indenture and by all proper action has authorized acceptance of the trusts created thereunder.

(viii) An opinion of counsel to the 2002 Trustee, dated the Closing Date, to the effect that:

(A) The 2002 Trustee is a national banking association duly organized and existing under the laws of the United States of America and has duly authorized, executed and delivered the 2002 Indenture and by all proper action has authorized acceptance of the trusts created thereunder.

(B) The 2002 Indenture constitutes a legally valid and binding obligation of the 2002 Trustee, enforceable against the 2002 Trustee in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws or equitable principles relating to or limiting creditors' rights generally.

(C) The 2002 Trustee has duly authorized, executed and delivered the 2002 Indenture and by all proper action has authorized acceptance of the trusts created thereunder.

(ix) An executed copy of a nonarbitrage certificate in form and substance satisfactory to Bond Counsel, together with a copy of the completed and executed IRS Form 8038-G.

(x) A certificate dated the Closing Date and signed by the Trustee or its designee, in form and substance satisfactory to the Underwriter to the effect that:

(A) The Trustee has all necessary power and authority to enter into, and perform its duties and accepts the trusts created under, the Indenture.

(B) The Trustee is duly authorized to enter into the Indenture and to authenticate the Bonds pursuant to the terms of the Indenture.

(C) The Bonds have been duly authenticated and delivered by the Trustee to the Underwriter pursuant to the direction from the City.

(D) The Trustee is not in breach of or default under any law or administrative rule or regulation of the State of California or the United States of America, or of any department, division, agency or instrumentality thereof, or any applicable court or administrative decree or

order, or any other instrument to which the Trustee is a party or is otherwise subject or bound and which would materially impair the ability of the Trustee to perform its obligations under the Indenture.

(E) To the best of the Trustee's knowledge, the execution and delivery of the Indenture and the authentication of the Bonds will not conflict with or constitute a breach of or default under the Trustee's duties under any law, administrative regulation, court decree, resolution, charter or bylaws to which the Trustee is subject or by which it is bound.

(xi) A certificate dated the Closing Date and signed by the 2002 Trustee or its designee, in form and substance satisfactory to the Underwriter to the effect that:

(A) The 2002 Trustee has all necessary power and authority to enter into, and perform its duties and accepts the trusts created under, the 2002 Indenture.

(B) The 2002 Trustee is duly authorized to enter into the 2002 Indenture and to authenticate the Bonds pursuant to the terms of the 2002 Indenture.

(C) The 2002 Trustee is not in breach of or default under any law or administrative rule or regulation of the State of California or the United States of America, or of any department, division, agency or instrumentality thereof, or any applicable court or administrative decree or order, or any other instrument to which the 2002 Trustee is a party or is otherwise subject or bound and which would materially impair the ability of the 2002 Trustee to perform its obligations under the 2002 Indenture.

(D) To the best of the 2002 Trustee's knowledge, the execution and delivery of the 2002 Indenture will not conflict with or constitute a breach of or default under the 2002 Trustee's duties under any law, administrative regulation, court decree, resolution, charter or bylaws to which the 2002 Trustee is subject or by which it is bound.

(xii) Written evidence satisfactory to the Underwriter that the ratings described in the Official Statement shall be in effect on and as of the Closing Date.

(xiii) Evidence of compliance with the prepayment and defeasance provisions of the 2002 Indenture and the 2002 Installment Sale Agreement.

(xiv) Written direction of the City and the Authority to the 2002 Trustee relating to the deposit of proceeds of the Bonds into the 2002 Redemption Fund and the use of such funds, along with other available moneys held by the 2002 Trustee under the 2002 Indenture, to prepay the 2002 Installment Payments and redeem the 2002 Bonds on the date identified in such written direction.

(xv) Copies of all closing documents required by, and delivered pursuant to, the Indenture, and such additional legal opinions, certificates, proceedings,

instruments and other documents as the Underwriter, Underwriter's Counsel, general counsel to the City or Bond Counsel may reasonably request.

If the conditions to the obligations of the Underwriter contained in this Bond Purchase Contract shall not be satisfied, unless otherwise waived by the Underwriter, this Bond Purchase Contract shall terminate with the effect stated in paragraph (c) of Section 5 hereof.

SECTION 5. *Termination of Agreement.* (a) The Underwriter may terminate this Bond Purchase Contract, with the effect stated in paragraph (c) of this Section, at any time subsequent to the date of this Bond Purchase Contract and at or prior to the Closing by notifying the City in writing or by telegram of its election so to do, if:

(i) A tentative decision with respect to legislation shall be reached by a committee of the House of Representatives or the Senate of the Congress of the United States or legislation shall be favorably reported by such a committee or be introduced, after the date of this Bond Purchase Contract and prior to the Closing, by amendment or otherwise, in, or be enacted by, the House of Representatives or the Senate, or be recommended to the Congress of the United States for passage by the President of the United States, or a decision by a court established under Article III of the Constitution of the United States, or the Tax Court of the United States, shall be rendered or a ruling, regulation or order of the Treasury Department of the United States or the Internal Revenue Service shall be made or proposed having the purpose or effect of imposing federal income taxation, or any other event shall have occurred which results in the imposition of federal income taxation, upon revenues or other income of the general character to be derived by the City (or by any similar body), or eliminating the right of the City to receive the Refundable Credits.

(ii) Legislation shall be introduced, by amendment or otherwise, in, or be enacted by, the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the United States Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made or proposed, to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, as contemplated hereby, is or would be in violation of any provision of the Securities Act, the Securities Exchange Act of 1934 (the "Securities Exchange Act") or the Trust Indenture Act, as any of the foregoing Acts are amended, or with the purpose or effect of otherwise prohibiting the issuance, offering or sale of obligations of the general character of the Bonds, or the Bonds, as contemplated hereby.

(b) In addition, the Underwriter may terminate this Bond Purchase Contract with the effect stated in paragraph (c) of this Section at any time subsequent to the date of this Bond Purchase Contract and at or prior to the Closing by notifying the City in writing or by telegram of its election to do so, if:

(i) Any event shall have occurred, or information shall have become known, which, in the Underwriter's reasonable opinion, makes untrue, incorrect or misleading in any material respect any statement or information contained in the Preliminary Official Statement or Official Statement or has the effect that the Preliminary Official Statement or Official Statement contains an untrue, incorrect or misleading statement of a material fact or omits to state a material fact required to be stated therein or necessary to make

the statements made therein, in the light of the circumstances under which they were made, not misleading.

(ii) Any legislation, resolution, ordinance, rule or regulation shall be introduced in, or be enacted by, any governmental body, department or agency of the United States, of the State of New York or of the State of California, or a decision by any court of competent jurisdiction within the United States, of the State of New York or of the State of California shall be rendered which, in the Underwriter's reasonable opinion, materially adversely affects the marketability of the Bonds or the sale, at the contemplated offering prices, by the Underwriter of the Bonds.

(iii) Additional restrictions not in force as of the date hereof having a material adverse effect on the transactions contemplated hereby shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange.

(iv) A general banking moratorium shall have been established by federal, New York or California authorities or trading in securities shall generally have been suspended on the New York Stock Exchange.

(v) Any rating or credit outlook on the Bonds shall have been downgraded or withdrawn by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability of the Bonds or the sale, at the contemplated offering prices, by the Underwriter of the Bonds.

(vi) A war involving the United States shall have been declared, or any existing conflict involving the armed forces of the United States shall have escalated, or any other national emergency relating to the financial community shall have occurred, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability of the Bonds or the sale, at the contemplated offering prices, by the Underwriter of the Bonds.

(vii) An event shall have occurred since the date hereof that in the Underwriter's reasonable judgment materially adversely affects the marketability or market price of the Bonds.

(c) If this Bond Purchase Contract is terminated as herein provided, the parties hereto shall have no obligations one to the other except as provided in Sections 6 hereof.

SECTION 6. *Expenses.* (a) Except as specifically provided in paragraph (b) of this Section 6, the Underwriter shall be under no obligation to pay and the City shall pay any expenses incident to, or in connection with, the offering, issuance and sale of the Bonds, including, but not limited to, (i) the cost of the preparation, printing or other reproduction (for distribution prior to, on or after the date of acceptance of this Bond Purchase Contract) of the Financing Agreements, the Preliminary Official Statement and the final Official Statement in reasonable quantities for distribution, (ii) charges made by rating agencies for the rating of the Bonds, (iii) the cost of printing the Bonds, (iv) the fees and expenses of the personnel and staff of the City designated to facilitate the execution and delivery of the Bonds, (v) the fees and expenses of the Trustee, (vi) the fees and expenses of the financial advisors, accountants, verification agent and other consultants, legal counsel, including Bond Counsel and the City's Financial Advisor, and (vii) all other expenses relating to the sale and delivery of the Bonds,

except those expressly provided for in subsection (b) of this Section 6. The aforesaid costs and expenses shall be paid out of the proceeds of the sale of Bonds or by the City.

(b) The Underwriter shall pay (i) the cost of qualifying the Bonds for sale in various states chosen by the Underwriter, (ii) the fees and expenses of counsel to the Underwriter, if any, (iii) the fees of the California Debt and Investment Advisory Commission, and (iv) all other expenses incurred by it in connection with its offering and distribution of the Bonds, including travel and advertising expenses.

(c) In the event that either the City or the Underwriter shall have paid obligations of the other as set forth in this Section, adjustment shall be made at the Closing or as soon thereafter as practicable.

SECTION 7. *Miscellaneous.* (a) Except as otherwise specifically provided in this Bond Purchase Contract, all notices, demands and formal actions under this Bond Purchase Contract shall be in writing and mailed, telegraphed or personally delivered to:

The Underwriter: Stifel, Nicolaus & Company, Incorporated
 dba Stone & Youngberg, a Division of Stifel Nicolaus
 515 South Figueroa St, Ste 1800
 Los Angeles, CA 90071
 Attn: Steve Heaney

The City: City of El Paso de Robles
 1000 Spring Street
 El Paso de Robles, CA 93446
 Attention: Treasurer and Director of Administrative
 Services

(b) This Bond Purchase Contract will inure to the benefit of and be binding upon the City and the Underwriter and their respective successors and assigns, and will not confer any rights upon any other person, partnership, association or corporation other than the City and persons, if any, controlling the Underwriter within the meaning of the Securities Act or the Securities Exchange Act. The terms "successors" and "assigns" shall not include any purchaser or holder of any of the Bonds.

(c) All of the representations, warranties and covenants of the City in this Bond Purchase Contract shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of the Underwriter, (ii) delivery of and any payment for the Bonds hereunder or (iii) termination of the Underwriter's obligation to accept delivery of the Bonds pursuant to this Bond Purchase Contract.

(d) Section headings have been inserted in this Bond Purchase Contract as a matter of convenience or for reference only, and it is agreed that such section headings are not a part of this Bond Purchase Contract and will not be used in the interpretation of any provisions of this Bond Purchase Contract.

(e) If any provision of this Bond Purchase Contract shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any constitution, statute, rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in

any other case or circumstance, or of rendering any other provision or provisions of this Bond Purchase Contract invalid, inoperative or unenforceable to any extent whatever.

(f) This Bond Purchase Contract 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 document.

(g) This Bond Purchase Contract shall be governed by and construed in accordance with the laws of the State of California.

STIFEL, NICOLAUS & COMPANY,
INCORPORATED, dba Stone &
Youngberg, a Division of Stifel Nicolaus

By: _____
Title: Managing Director

This Bond Purchase Contract
is accepted and agreed to as of
the date first above written:

CITY OF EL PASO DE ROBLES

Treasurer

Time of Execution: _____

SCHEDULE A
MATURITY SCHEDULE

<u>Maturity Date</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
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EXHIBIT A

**City of El Paso de Robles, California
2012 Wastewater Revenue Refunding Bonds**

CERTIFICATE REGARDING FINALITY OF PRELIMINARY OFFICIAL STATEMENT

The undersigned hereby certifies and represents that he is the duly appointed and acting Finance Director of the City of El Paso de Robles (the "City"), and as such is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the City as follows:

- (1) This Certificate is delivered in connection with the offering and sale of the above-titled bonds (the "Bonds") in order to enable the underwriter of the Bonds to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule").
- (2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement, setting forth information concerning the Bonds and the City (the "Preliminary Official Statement").
- (3) As used herein, "Permitted Omissions" shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters, all with respect to the Bonds.
- (4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of Rule 15c2-12, and the information therein is accurate and complete except for the Permitted Omissions.

IN WITNESS WHEREOF, I have hereunto set my hand as of _____, 2012.

CITY OF EL PASO DE ROBLES

By: _____
Treasurer

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES AUTHORIZING THE ISSUANCE AND SALE OF 2012 WASTEWATER REVENUE REFUNDING BONDS IN THE MAXIMUM AMOUNT OF NOT TO EXCEED \$7,500,000 TO REFINANCE OUTSTANDING 2002 INSTALLMENT SALE REVENUE BONDS, AND APPROVING RELATED AGREEMENTS AND ACTIONS

WHEREAS, the City of El Paso de Robles, a general law city organized and existing under the laws of the State of California (the "City"), owns and operates a wastewater treatment facility for the treatment of wastewater; and

WHEREAS, in order to realize debt service savings and implement more flexible bond covenants, the City wishes at this time to refinance the 2002 Installment Sale Revenue Bonds (the "Prior Bonds"), and the City is authorized under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"), to issue its revenue refunding bonds for that purpose; and

WHEREAS, to that end the City Council wishes to authorize the issuance and sale of City of El Paso de Robles 2012 Wastewater Revenue Refunding Bonds in the aggregate principal amount of not to exceed \$7,500,000 (the "Refunding Bonds") under the Bond Law, at a total interest cost of not to exceed 4.50%, which will be secured by a pledge of the net revenues of the Wastewater System which will provide, when compared to the existing Prior Bonds, a present value savings of not less than 3%; and

WHEREAS, the City Council of the City has duly considered such transactions and wishes at this time to approve said transactions in the public interests of the City.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of El Paso de Robles as follows:

Section 1. Issuance of Refunding Bonds; Approval of Indenture. The City Council hereby authorizes the issuance of the Refunding Bonds under the Bond Law, in the principal amount of not to exceed \$7,500,000, for the purpose of providing funds to refinance the 2002 Installment Sale Revenue Bonds.

The Refunding Bonds shall be issued under an Indenture of Trust (the "Indenture") between the City and Union Bank, N.A., as trustee, which Indenture is hereby approved in substantially the form on file with the City Clerk together with any changes therein or additions thereto deemed advisable by the City Manager, the Director of Administrative Services, the City Treasurer, the Mayor, or the City Clerk (each, an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of such changes and additions. The City Council hereby authorizes and directs an Authorized Officer to execute, and the City Clerk to attest the Indenture for and in the name of the City. The City Council hereby authorizes the delivery and performance of the Indenture.

Section 2. Refinancing of 2002 Installment Sale Revenue Bonds. The City Council hereby authorizes and approves the refinancing of the 2002 Installment Sale Revenue Bonds from the proceeds of the Refunding Bonds.

Section 3. Negotiated Sale of Refunding Bonds. In accordance with Section 53583 of the Bond Law, the City Council hereby authorizes and directs the negotiated sale of the Refunding Bonds to Stifel Nicolaus & Company, Incorporated, dba Stone & Youngberg, a Division of Stifel Nicolaus, as underwriter (the "Underwriter") under the Bond Purchase Agreement in substantially the form on file with the City Clerk together with any changes therein or additions thereto deemed advisable by an Authorized Officer, whose execution thereof shall be conclusive evidence of the approval of any such changes or additions. The amount of Underwriter's discount for the Refunding Bonds shall be not more than 1.1% of the par

amount thereof and the total interest cost to be borne by the Refunding Bonds (taking into account any original issue discount on the sale thereof) shall not exceed 4.50% per annum.

Section 4. Official Statement. The City Council hereby approves the Preliminary Official Statement describing the Refunding Bonds in the form on file with the City Clerk, and authorizes an Authorized Officer to approve revisions to said Preliminary Official Statement. At the request of the Underwriter, an Authorized Officer shall execute a certificate deeming the Preliminary Official Statement, as so revised, to be nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934. Distribution of the Preliminary Official Statement by the Underwriter to prospective purchasers of the Refunding Bonds is hereby approved. An Authorized Officer is hereby authorized and directed to approve any changes in or additions to a final form of said Official Statement, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The City Council hereby authorizes the distribution of the final Official Statement by the Underwriter. The final Official Statement shall be executed in the name and on behalf of the City by an Authorized Officer.

Section 5. Engagement of Professional Services. In connection with the issuance and sale of the Refunding Bonds, the City Council hereby authorizes the engagement of the services of NHA Advisors, LLC, to act as financial advisor to the City and the Law Office of Robert M. Haight, to act as bond counsel. The City Manager is hereby authorized and directed to execute an agreement with each such firm, in the respective forms on file with the City Clerk.

Section 6. Official Actions. The City Manager, the Director of Administrative Services, the City Treasurer, the Mayor, or the City Clerk, and any and all other officers of the City are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the transactions described herein. Whenever in this resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf if such officer is absent or unavailable.

Section 7. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

The foregoing resolution was adopted at a regular meeting of the City Council of the City of El Paso de Robles held on March 7, 2012, by the following vote, to-wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

Mayor, City of El Paso de Robles

ATTEST:

City Clerk, City of El Paso de Robles