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| REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO | CERTIFICATE NUMBER (FOR AUDITOR'S USE ONLY) |
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| TO: CITY COUNCIL | FROM (ORIGINATING DEPARTMENT): City Attorney | DATE: 11/21/2016 |
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SUBJECT: Public Facilities Financing Authority of the City of San Diego Approval of the Authority's Subordinated Water Revenue Commercial Paper Notes Program (Water Commercial Paper Notes) and Approving Certain Documents and Actions in Connection Therewith.

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| PRIMARY CONTACT (NAME, PHONE): Brant Will, 619-236-6220, MS 59 | SECONDARY CONTACT (NAME, PHONE): , |
|---|---------------------------------------|

COMPLETE FOR ACCOUNTING PURPOSES

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|-----------------------|------|------|------|------|------|------|
| FUND | | | | | | |
| FUNCTIONAL AREA | | | | | | |
| COST CENTER | | | | | | |
| GENERAL LEDGER ACCT | | | | | | |
| WBS OR INTERNAL ORDER | | | | | | |
| CAPITAL PROJECT No. | | | | | | |
| AMOUNT | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

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|-----------------------|------|------|------|------|------|------|
| FUND | | | | | | |
| FUNCTIONAL AREA | | | | | | |
| COST CENTER | | | | | | |
| GENERAL LEDGER ACCT | | | | | | |
| WBS OR INTERNAL ORDER | | | | | | |
| CAPITAL PROJECT No. | | | | | | |
| AMOUNT | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

COST SUMMARY (IF APPLICABLE):

ROUTING AND APPROVALS

| CONTRIBUTORS/REVIEWERS: | APPROVING AUTHORITY | APPROVAL SIGNATURE | DATE SIGNED |
|-------------------------|---------------------------|-----------------------------|-------------|
| | ORIG DEPT. | Gleeson Townsley, Carrie | 11/21/2016 |
| | CFO | | |
| | COO | | |
| | CITY ATTORNEY | | |
| | COUNCIL PRESIDENTS OFFICE | Mojabi, Sarah | 11/21/2016 |

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|--|---|---------------------------------------|---------------------------------------|----------------------------------|
| PREPARATION OF: | <input checked="" type="checkbox"/> RESOLUTIONS | <input type="checkbox"/> ORDINANCE(S) | <input type="checkbox"/> AGREEMENT(S) | <input type="checkbox"/> DEED(S) |
| A resolution of the Public Facilities Financing Authority of the City of San Diego authorizing the issuance and sale of one or more series or subseries of commercial paper notes in an aggregate principal amount not to exceed \$250,000,000, authorizing the form and content of all related legal documents, approving the form and authorizing the distribution of the offering memorandum, and approving certain other agreements and actions in connection therewith. | | | | |
| STAFF RECOMMENDATIONS: Approve the resolution. | | | | |
| SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION) | | | | |
| COUNCIL DISTRICT(S): | All | | | |
| COMMUNITY AREA(S): | | | | |
| ENVIRONMENTAL IMPACT: | | | | |
| CITY CLERK INSTRUCTIONS: | Please docket this as a companion item to the City Council action on authorizing the Subordinated Water Commercial Paper Notes Program. | | | |

**COUNCIL ACTION
EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO**

DATE: 11/21/2016

ORIGINATING DEPARTMENT: City Attorney

SUBJECT: Public Facilities Financing Authority of the City of San Diego Approval of the Authority's Subordinated Water Revenue Commercial Paper Notes Program (Water Commercial Paper Notes) and Approving Certain Documents and Actions in Connection Therewith.

COUNCIL DISTRICT(S): All

CONTACT/PHONE NUMBER: Brant Will/619-236-6220, MS 59

REQUESTED ACTION:

Approve a resolution authorizing the issuance of the Water Commercial Paper Notes and approving the forms of various legal documents related thereto.

STAFF RECOMMENDATION:

Approve the resolution.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

The City Council of the City of San Diego has requested the assistance of the Authority in issuing the Authority's Subordinated Water Revenue Commercial Paper Notes (Water Commercial Paper Notes) in an aggregate principal amount not to exceed \$250,000,000. The Water Commercial Paper Notes program and all legal documents are described in detail in Report to the Budget and Government Efficiency Committee No. 16-090, Authorization for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes, dated November 4, 2016, and Report to City Council No. 16-104 dated November 18, 2016. The materials included with this action are identical to those submitted for the companion City Council item on the approval of the Water Commercial Paper Notes.

FISCAL CONSIDERATIONS:

EQUAL OPPORTUNITY CONTRACTING INFORMATION (IF APPLICABLE):

PREVIOUS COUNCIL and/or COMMITTEE ACTION (describe any changes made to the item from what was presented at committee):

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Gleeson Townsley, Carrie
Originating Department

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

RESOLUTION NUMBER FA-2016-9

ADOPTED ON DECEMBER 6, 2016

A RESOLUTION OF THE BOARD OF COMMISSIONERS OF THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO (I) APPROVING THE FORMS AND AUTHORIZING THE EXECUTION AND DELIVERY OF THE FIFTH SUPPLEMENTAL INDENTURE, AN ASSIGNMENT AGREEMENT, THE ISSUING AND PAYING AGENCY AGREEMENT AND ONE OR MORE DEALER AGREEMENTS, (II) APPROVING AND AUTHORIZING THE ISSUANCE AND SALE BY THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO OF ONE OR MORE SERIES OR SUBSERIES OF COMMERCIAL PAPER NOTES FROM TIME TO TIME IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$250,000,000 TO FINANCE ADDITIONAL CAPITAL IMPROVEMENTS TO THE WATER SYSTEM, (III) APPROVING THE FORM AND AUTHORIZING THE DISTRIBUTION, EXECUTION AND DELIVERY OF THE OFFERING MEMORANDUM; AND (IV) APPROVING CERTAIN OTHER AGREEMENTS AND ACTIONS IN CONNECTION THEREWITH.

WHEREAS, The City of San Diego, California (City), the City solely in its capacity as the designated Successor Agency to the former Redevelopment Agency of the City of San Diego, and the Housing Authority of the City of San Diego, are parties to a Joint Exercise of Powers Agreement establishing the Public Facilities Financing Authority of the City of San Diego (Authority), a California joint exercise of powers authority duly organized and established to finance, acquire, construct, maintain, repair, operate, and control certain capital facilities improvements for the City; and

WHEREAS, the San Diego Facilities and Equipment Leasing Corporation (Corporation) is a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws

of the State of California (State) that was incorporated to acquire and lease and/or sell to the City real and personal property to be used in the municipal operations of the City; and

WHEREAS, the City desires to provide for the issuance tax-exempt governmental subordinated water revenue commercial paper notes from time to time in one or more series or subseries (Commercial Paper Notes) that are payable from subordinated installment payments secured by Net System Revenues (as defined in the herein referenced Installment Purchase Agreement) of the City's Water Utility Fund (Water Utility Fund) to (i) provide short-term financing for the design, acquisition, construction, installation, and improvement of components of the City's water system (Water System), (ii) reimburse the City for eligible expenditures in accordance with the herein described Reimbursement Resolution and (iii) pay costs of issuance incurred in connection with the issuance of Commercial Paper Notes; and

WHEREAS, to facilitate such short-term financing, the City and the Corporation propose to provide for the issuance from time to time of up to \$250,000,000 aggregate principal amount of subordinated water revenue bonds in the form of Commercial Paper Notes from time to time, in one or more series or subseries, for the purposes set forth above; and

WHEREAS, the City has requested the Authority's assistance in effecting the financing of design, acquisition, construction and installation of improvements (Projects) to the Water System from time to time, in each case if economical or otherwise on terms beneficial to the City and its residents; and

WHEREAS, in order to effectuate the design, acquisition, construction, installation, and improvement of the Water System, the City and the Corporation have entered into an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of

January 1, 2009, a 2009B Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2009, a 2010A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2010, a 2012A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2012, and a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016 (collectively, the Installment Purchase Agreement), each by and between the City and the Corporation, pursuant to which the Corporation has agreed to sell certain improvements and additions (comprised of various components, each, a Component) to the Water System and the City has agreed from time to time to purchase certain Components as specified in certain supplements to the Installment Purchase Agreement; and

WHEREAS, the City has determined pursuant to a Resolution introduced at a meeting of the City Council of the City of San Diego on the date hereof, that it is in the best interests of the City to request the Authority to issue its Commercial Paper Notes from time to time in one or more series or subseries, payable from subordinated Installment Payments secured by Net System Revenues of the Water Utility Fund, to finance the improvements to the Water System; and

WHEREAS, the Resolution includes a finding that financing of components of the Water System as set forth therein will provide significant public benefits in accordance with the criteria specified in California Government Code Section 6586; and

WHEREAS, in order to finance the design, acquisition, construction and installation of additional improvements to the Water System, the City and the Corporation propose to enter into the 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement (2017 Commercial Paper Supplement), supplementing the Installment Purchase Agreement; and

WHEREAS, the Installment Purchase Agreement, as amended, provides that each Supplement shall specify either a senior or subordinate pledge of Net System Revenues and the Resolution provides for the execution and delivery of the 2017 Commercial Paper Supplement in conjunction with the issuance of Commercial Paper Notes from time to time, in one or more series or subseries and on one or more sale dates, which Commercial Paper Notes will be secured by a subordinate pledge of Net System Revenues; and

WHEREAS, under the Installment Purchase Agreement and the 2017 Commercial Paper Supplement, the City will be obligated to make Commercial Paper Subordinated Installment Payments (as defined in the 2017 Commercial Paper Supplement) to the Authority; and

WHEREAS, to further facilitate the proposed financings, the Corporation, as assignor, will execute and deliver an Assignment Agreement (Assignment Agreement), pursuant to which the Corporation will assign all of its right, title, and interest under the 2017 Commercial Paper Supplement to the Authority, as assignee; and

WHEREAS, the issuance of the Commercial Paper Notes from time to time is authorized under the Resolution in one or more series or subseries over time, if economical or otherwise on terms deemed beneficial by and to the City and its residents; and

WHEREAS, to provide for the authentication and delivery of the Commercial Paper Notes from time to time, to establish and declare the terms and conditions upon which the Commercial Paper Notes are to be issued from time to time and secured, and to secure the repayment thereof, it is proposed that the Authority enter into the Fifth Supplemental Indenture (Fifth Supplemental Indenture) with U.S. Bank National Association, or any successor or substitute trust company or bank having trust powers, as trustee (Trustee), which Fifth Supplemental Indenture shall amend

and supplement an Indenture, dated as of January 1, 2009, as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of June 1, 2010, a Third Supplemental Indenture, dated as of April 1, 2012, and a Fourth Supplemental Indenture, dated as of June 1, 2016, each by and between the Authority and the Trustee; and

WHEREAS, the Authority has determined, in accordance with Section 9.01(b) of the Indenture, that the terms of the Fifth Supplemental Indenture including, without limitation, to provide for the issuance of Commercial Paper Notes, are not inconsistent with the Indenture as currently exists and will not adversely affect the interests of the Owners of bonds issued under the Indenture; and

WHEREAS, in order to provide additional security for the Commercial Paper Notes, the City proposes to enter one or more reimbursement agreements with, and deliver bank notes (each, a Bank Note) to, each Credit Provider (Credit Provider), the initial ones being Bank of the West and Bank of America, N.A., pursuant to which the Credit Provider will each issue an irrevocable direct-pay letter of credit to provide credit enhancement and liquidity support for any authorized series or subseries of the Commercial Paper Notes (each, a Commercial Paper Notes Credit Support Instrument); and

WHEREAS, the Authority proposes to execute a Letter of Representation (Letter of Representation) to induce each Commercial Paper Notes Credit Facility Provider to provide its Commercial Paper Notes Credit Support Instrument; and

WHEREAS, in furtherance of the issuance of the Commercial Paper Notes under the Indenture, the Authority and the Issuing and Paying Agent named therein (Issuing and Paying

Agent) propose to enter into an Issuing and Paying Agency Agreement (Issuing and Paying Agency Agreement); and

WHEREAS, there has been presented to this meeting a proposed form of Offering Memorandum (Offering Memorandum) relating to the issuance by the Authority of its Commercial Paper Notes, which will be used in marketing the Commercial Paper Notes; and

WHEREAS, the Authority is authorized to undertake the actions described in this Resolution pursuant to its Joint Exercise of Powers Agreement and the Constitution and applicable laws of the State;

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Public Facilities Financing Authority of the City of San Diego (Board of Commissioners), as follows:

Section 1. The Board of Commissioners hereby finds and determines that the statements set forth above in the recitals to this Resolution are true and correct.

Section 2. The Board of Commissioner hereby approves the issuance of by the Authority of its tax-exempt Commercial Paper Notes from time to time, in one or more series or subseries, in an aggregate principal amount not to exceed \$250,000,000 to provide funds for the financing improvements to the Water System and pay costs of issuance incurred in connection with the issuance of the Commercial Paper Notes, from time to time; provided that as to each such issuance, the financing must achieve a true interest cost not to exceed the lesser of eleven percent (11%) or the maximum rate per annum permitted by law. The Commercial Paper Notes are authorized to be executed for and in the name of and on behalf of the Authority by the manual or facsimile signature of the Chair or Vice-Chair of the Board of Commissioners of the Authority or the Treasurer of the Authority (each, an Authorized Officer) and attested to by the manual or

facsimile signature of the Secretary of the Authority (Secretary) or his or her specified designee. The Commercial Paper Notes, when so executed and attested, are authorized to be delivered to the Trustee for authentication.

Section 3. The forms and content of the Fifth Supplemental Indenture, the Assignment Agreement, the Letter of Representations, the Issuing and Paying Agency Agreement and Dealer Agreements (collectively, the Financing Documents), each as submitted to this meeting and on file in the office of the Office of the Secretary and submitted to this meeting, are hereby approved. The Authorized Officers, and each of them, acting alone, are hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Financing Documents in conjunction with the issuance of Commercial Paper Notes from time to time, in one or more series or subseries, in substantially the forms submitted to this meeting, with such additions and changes therein as any Authorized Officer shall determine are necessary or desirable and approve as being in the best interests of the Authority, and as approved as to form by the City Attorney of the City of San Diego (City Attorney), as counsel to the Authority, or his or her specified designee, and with such other changes that may be required or requested by Hawkins Delafield & Wood LLP, as Bond Counsel (Bond Counsel), such approval to be conclusively evidenced by the execution and delivery thereof. The Fifth Supplemental Indenture shall specify a subordinate pledge of Net System Revenues (as defined in the Installment Purchase Agreement) with respect to the Commercial Paper Notes.

Section 4. The form and content of the proposed Offering Memorandum substantially in the form presented to and considered at this meeting, are hereby approved, with such changes thereto as an Authorized Officer shall determine are necessary or desirable and may require or approve, such approval to be conclusively evidenced by the delivery of the Offering Memorandum

for release to prospective purchasers of the Commercial Paper Notes. The distribution of electronic or physical copies of the Offering Memorandum to persons who may be interested in the purchase of the Commercial Paper Notes is hereby authorized and approved.

Section 5. The Authorized Officers, and each of them, acting alone, are hereby authorized and directed to take all actions and execute any and all documents which they may deem necessary or advisable in order to consummate, carry out, give effect to and comply with the terms and intent of this Resolution and the consummation of the transactions contemplated hereby. Any actions heretofore taken by such officers in furtherance of any of the transactions authorized herein are hereby ratified, confirmed, and approved.

Section 6. The Authorized Officers, and each of them, acting alone, are hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things and take any and all actions, from time to time, consistent with this Resolution and the documents approved herein and other documents authorized by this Resolution, including, without limitation, payment of necessary and appropriate fees and expenses of bond counsel, disclosure counsel, municipal advisor and other professionals retained by the Authority, and execute and deliver any and all certificates, agreements and other documents (including, but not limited to, the tax compliance certificate) which they, or any of them, may deem necessary or advisable to consummate the transactions evidenced by the documents referenced herein in accordance with this Resolution.

Section 7. This Resolution shall take effect immediately upon its adoption.

ADOPTED, SIGNED AND APPROVED this ____ day of _____, 2016, by the following vote:

AYES:

NAYS:

ABSENT:

VACANT:

ABSTAIN:

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

Sherri Lightner, Chair,
Board of Commissioners

Attest:

Secretary to Board of Commissioners

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| REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO | CERTIFICATE NUMBER (FOR COMPTROLLER'S USE ONLY) N/A |
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| TO: CITY COUNCIL | FROM (ORIGINATING DEPARTMENT): Debt Management | DATE: 10/19/2016 |
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SUBJECT: Authorization for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes Program

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|---|---|
| PRIMARY CONTACT (NAME, PHONE): Lakshmi Kommi, 619-236-6928 | SECONDARY CONTACT (NAME, PHONE): Allison Falkenstein, 619-533-4516 |
|---|---|

COMPLETE FOR ACCOUNTING PURPOSES

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|-----------------------|------|------|------|------|------|
| FUND | | | | | |
| FUNCTIONAL AREA | | | | | |
| COST CENTER | | | | | |
| GENERAL LEDGER ACCT | | | | | |
| WBS OR INTERNAL ORDER | | | | | |
| CAPITAL PROJECT No. | | | | | |
| AMOUNT | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

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| FUND | | | | | |
| FUNCTIONAL AREA | | | | | |
| COST CENTER | | | | | |
| GENERAL LEDGER ACCT | | | | | |
| WBS OR INTERNAL ORDER | | | | | |
| CAPITAL PROJECT No. | | | | | |
| AMOUNT | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

COST SUMMARY (IF APPLICABLE): Subordinated Water Revenue Commercial Paper Note Program fees and interest costs are projected to total \$0.3 million in FY 2017, \$1.6 million in FY 2018, and \$1.1 million in the first half of FY 2019. These are estimates based on projected CIP needs and current interest rates, subject to change.

ROUTING AND APPROVALS

| CONTRIBUTORS/REVIEWERS: | APPROVING AUTHORITY | APPROVAL SIGNATURE | DATE SIGNED |
|-------------------------|-------------------------------|--------------------|-------------|
| Financial Management | Equal Opportunity Contracting | Kommi, Lakshmi | 10/21/2016 |
| Liaison Office | CFO | | |
| Comptroller | DEPUTY CHIEF | Lewis, Mary | 11/04/2016 |
| Public Utilities | COO | | |
| Environmental Analysis | CITY ATTORNEY | Will, Brant | 11/18/2016 |
| | COUNCIL PRESIDENTS OFFICE | | |

PREPARATION OF: RESOLUTIONS ORDINANCE(S) AGREEMENT(S) DEED(S)

1. Authorize the issuance of Subordinated Water Revenue Commercial Paper Notes from time to time in an amount not to exceed \$250 million to provide financing for capital improvements to the Water System; and
2. Authorize the execution of related financing documents which include the forms of the 2017 Commercial Paper

Supplement to the Amended and Restated Master Installment Purchase Agreement, the Assignment Agreement, the Fifth Supplemental Indenture, the Issuing and Paying Agency Agreement, the Dealer Agreements, and Reimbursement Agreements and exhibits; and authorize all related actions; and

3. Authorize the form and distribution of the Offering Memorandum, in connection with the issuance of Subordinated Water Revenue Commercial Paper Notes; and

4. Authorize the City Attorney to retain and enter into an agreement with Bond and Disclosure Counsel, Hawkins Delafield and Wood LLP for the Water Revenue Commercial Paper Notes Program; and

5. Authorize the Chief Financial Officer to establish one or more special interest bearing account(s) for the proceeds of the Subordinated Water Revenue Commercial Paper Notes.

STAFF RECOMMENDATIONS:

Approve the requested actions

SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION)

COUNCIL DISTRICT(S): All Districts

COMMUNITY AREA(S): City-wide

ENVIRONMENTAL IMPACT: The Activity is not a project. Not subject to CEQA pursuant to Section 15060(c)(3) OF CEQA Guidelines.

CITY CLERK INSTRUCTIONS: A notice of public hearing concerning the adoption of the resolution is to be published in a newspaper 5 days prior to the City Council hearing.

This item must on the discussion agenda.

Please provide a copy of the signed resolution to Debt Management at MS 7B.

COUNCIL ACTION
EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO

DATE: 10/19/2016

ORIGINATING DEPARTMENT: Debt Management

SUBJECT: Authorization for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes Program

COUNCIL DISTRICT(S): All Districts

CONTACT/PHONE NUMBER: Lakshmi Kommi/619-236-6928

DESCRIPTIVE SUMMARY OF ITEM:

Authorization for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes Program

STAFF RECOMMENDATION:

Approve the requested actions

EXECUTIVE SUMMARY OF ITEM BACKGROUND (See full Staff Report No. 16-104.):

The Chief Financial Officer and the Water Utility have undertaken a multi-part process to streamline cash management in the Capital Improvement Program (“CIP”) to promote a more efficient use of available cash to initiate and complete projects. Staff is seeking authorization for a Commercial Paper Program for the Water Utility Fund, which is a strong cash management tool and will provide a “just in time” seamless funding source for several large scale Water System projects.

The authorization will allow the Water Utility to issue short-term debt to fund water capital needs, which will ultimately be refinanced into long-term bonded debt as the capacity nears the not to exceed levels that will be authorized by City Council. This commercial paper program will be used for the Water System projects only. The Commercial Paper Program will allow the Water Utility to take advantage of the low short-term borrowing rates and gives the Water Utility greater financial flexibility. The Commercial Paper Program will enable the Water Utility to:

- Have quick access to the market and the flexibility to tailor borrowings to both market conditions and specific cash requirements,
- Only borrow amounts when funds are required (as capital project spending occurs),
- Immediately receive proceeds from the sale of Commercial Paper, and
- Avoid negative arbitrage and the risk of over-borrowing and incurring additional interest costs.

The Public Utilities Department has an active Water System CIP which supports the water system infrastructure for reliable water supply, the recycled water system, and other critical water projects. From time to time, bonds have been issued and state loans have been obtained to finance portions of the Water System’s CIP. In June 2016, the Water Utility issued new Water Bonds with \$80 million of proceeds and the Public Utilities Department projects to expend these

funds by February 2017. As of October 31, 2016, the Water System has \$665 million in outstanding bonds and approximately \$60 million in outstanding Drinking Water State Revolving Fund (“SRF”) loans. Currently, funding for water projects are provided by a variety of sources which includes long-term bond financing, pay-go, SRF loans, and grants to complete various Water System capital projects citywide.

The following are the critical milestones related to the execution of the Commercial Paper Notes: Budget and Government Efficiency Committee approval on November 16, 2016, and City Council authorization of documents and financing plan on December 6, 2016. In mid-January 2017, distribute Offering Memorandum to investors; document signing and closing in late-January 2017; with the first note issuance anticipated to fund Water System CIP anticipated in the week of January 30, 2017.

CITY STRATEGIC PLAN GOAL/OBJECTIVE:

Goal #1: Provide high quality public service

Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

FISCAL CONSIDERATIONS:

The \$250 million Water Revenue Commercial Paper Program will have costs associated with the maintenance of the program, which are: costs of issuance paid at closing, ongoing program costs, and ongoing interest payments due when commercial paper notes mature. The projected costs of issuance to be paid at closing is \$329,700 with commercial paper note proceeds. The ongoing program costs, assuming monthly new issuances based on Water System CIP projected needs, are projected to \$0.2 million for the rest of Fiscal Year 2017, \$0.9 million in Fiscal Year 2018, and \$0.5 million in the first half of Fiscal Year 2019. The ongoing program costs will be budgeted and paid from Water Utility Operating Funds.

Based on the projected Water System CIP spending schedule and the issuances required to support these financing needs, the projected commercial paper interest costs at current rates for the rest of Fiscal Year 2017 is \$0.05 million, Fiscal Year 2018 is \$0.7 million, and in the first half of Fiscal Year 2019 is \$0.6 million. These are projections based on current rates and are subject to change.

The estimated present value debt service savings from issuing commercial paper notes for Water System CIP needs, as compared to immediately issuing long-term bonds, is \$13.0 million. The scenario assumes \$250 million of commercial paper drawn over a period of two years and no change in long term interest rates between the issuance of commercial paper and the issuance of long term bonds. Under such conditions, due to utilizing commercial paper’s lower short term interest rates and as-needed borrowing structure, present value savings are realized.

EQUAL OPPORTUNITY CONTRACTING INFORMATION:

This agreement is subject to the City's Equal Employment Opportunity Outreach Program (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On November 16, 2016, Debt Management presented the Water Revenue Commercial Paper Authorization to the Budget and Government Efficiency; item was approved and forwarded to City Council.

On March 23, 2015 City Council approved a resolution R-309577 to adopt revisions to the City's Debt Policy to add guidelines and implementation of a commercial paper notes program.

On February 10, 2015 City Council received financial training from the Independent Budget Analyst for an introduction to Commercial Paper Program and mechanics of implementation, presented by the City's Municipal Advisor.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

This item is docketed for Budget and Government Efficiency Committee. A notice of public hearing concerning the adoption of the resolution is published 5 days prior to the City Council hearing.

The Public Utilities Department conducts community outreach on a project basis.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in the proposed financing include Montague DeRose and Associates, LLC (Municipal Advisor); Hawkins Delafield & Wood LLP (Bond and Disclosure Counsel); U.S. Bank National Association (Issuing and Paying Agent/Trustee); Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Capital Markets, LLC (Dealers); Bank of America, N.A. and Bank of the West (Letter of Credit Providers); and Moody's Rating Service and Fitch Ratings (Rating Agencies).

Kommi, Lakshmi

Originating Department

Lewis, Mary

Deputy Chief/Chief Operating Officer



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: November 18, 2016 REPORT NO. 16-104

ATTENTION: Council President and Members of the City Council

SUBJECT: Authorization for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes Program

REFERENCE: Budget and Government Efficiency Committee Report No. 16-090 dated November 4, 2016

REQUESTED ACTION:

1. Authorize the issuance of Subordinated Water Revenue Commercial Paper Notes from time to time in an amount not to exceed \$250 million to provide financing for capital improvements to the Water System; and
2. Authorize the execution of related financing documents which include the forms of the 2017 Commercial Paper Supplement to the Amended and Restated Master Installment Purchase Agreement, the Assignment Agreement, the Fifth Supplemental Indenture, the Issuing and Paying Agency Agreement, the Dealer Agreements, and Reimbursement Agreements and exhibits; and authorize all related actions; and
3. Authorize the form and distribution of the Offering Memorandum in connection with the issuance of Subordinated Water Revenue Commercial Paper Notes; and
4. Authorize the City Attorney to retain and enter into an agreement with Bond and Disclosure Counsel, Hawkins Delafield and Wood LLP for the Subordinated Water Revenue Commercial Paper Notes Program; and
5. Authorize the Chief Financial Officer to establish one or more special interest bearing account(s) for the proceeds of the Subordinated Water Revenue Commercial Paper Notes.

STAFF RECOMMENDATION:

Approve requested actions.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

This Companion Staff Report should be read in conjunction with Report to City Council No. 16-090 (attached to this report as **Attachment 1**) for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (“Commercial Paper Notes”) Program that was docketed for the Budget and Government Efficiency Committee meeting on November 16, 2016.

The following are additional items to Report No. 16-090 regarding (i) the Letter of Credit Providers, (ii) the Legal Documents that City Council is requested to approve in connection with this Council item, and (iii) additional information on fiscal impacts.

I. Additional Members of the Financing Team: Letter of Credit Providers

Letter of Credit (“LOC”) Providers: A direct-pay LOC provides credit enhancement and liquidity support for the Commercial Paper Notes and represents the issuing bank’s promise to pay principal and interest on such Commercial Paper Notes when due for a specified period of time and subject to certain conditions. Under this Program, the Issuing and Paying Agent will draw upon the applicable LOC to make principal and interest payments to investors when the related Commercial Paper Notes mature.

In October 2016, the City issued a Request for Proposal (RFP) to banks requesting direct-pay LOCs and/or alternative bank products to support the Commercial Paper Notes Program. A total of six responses to the RFP were received. Based on analysis of financing needs and structure, and evaluations of the proposals, it was determined that Bank of America, N.A. and Bank of the West offered the most competitive pricing for LOCs with terms of two to three years. Bank of America, N.A. will provide a \$175 million LOC and the bank has been assigned short-term credit ratings of P-1 (Stable), A-1 (Positive), and F1 (Stable) by Moody’s, S&P, and Fitch Ratings, respectively, which are the highest short-term ratings. The cost is 0.31% per annum for a term of 2 years. Bank of the West will provide a \$75 million LOC and the bank has been assigned short-term ratings of P-1 (Stable), A-2 (Stable), and F1 (Stable) by Moody’s, S&P, and Fitch Ratings, respectively. The cost is 0.30% per annum for a term of 3 years. The Counsel to the LOC Providers is McGuireWoods LLP.

Key terms include:

| | <u>Bank of the West</u> | <u>Bank of America, N.A.</u> | |
|--|-------------------------|------------------------------|---|
| Total Principal Commitment Amount | \$75,000,000 | \$175,000,000 | Supports the Subordinated Water Revenue Commercial Paper Notes Program in the maximum principal amount of \$250,000,000. |
| Term of the Agreement, Expiration | 3 years January 2020 | 2 years January 2019 | The market standard is one to three years; three years provides additional stability to the Commercial Paper Notes Program. |
| Annual Fee | 0.30 percent | 0.31 percent | This is at the low end of market rates for a two and three year facility. In addition, both banks charge \$250 per draw on the facility. A substantial reduction in the Water Utility’s credit ratings will increase the fee. |

| | | | |
|------------------|------------|-------------|--|
| Term Loan | Five years | Three years | In the event that the LOC Provider is not immediately reimbursed from proceeds of the sale of notes or from payment by the Water Utility Fund, the outstanding amount is converted to a term loan pursuant to which the Water Utility Fund is to repay the loan in equal installments over the term of the loan. |
|------------------|------------|-------------|--|

II. Financing and Legal Documents

This section contains a general description of the documents and key terms that require the City Council’s approval. The **Financing Resolution** authorizes the issuance of the Commercial Paper Notes, which includes the approval of the form of the operative legal documents and agreements described below and any other actions of the Mayor, the Chief Operating Officer or the Chief Financial Officer or their designees determine may be necessary to issue the Commercial Paper Notes (the docketed documents contain various blank placeholders or items in brackets, which will be filled in by Bond Counsel at the time of closing).

1. ***Supplemental Indenture (“Supplemental Indenture”)***. The Supplemental Indenture supplements the Indenture for the Water Revenue Bonds, which was originally executed as of January 1, 2009 by and between the Public Facilities Financing Authority of the City of San Diego (the “Authority”) and U.S. Bank, National Association, as trustee for the Water Revenue Bonds. The Supplemental Indenture sets forth the terms applicable to the Commercial Paper Notes, including the conditions for the issuance and repayment thereof, provisions on the use of proceeds of the Commercial Paper Notes, the nature of the security for the Commercial Paper Notes (*i.e.*, that the commercial paper notes are limited obligations of the Authority payable from subordinated installment payments secured by net system revenues of the Water Utility Fund). The Supplemental Indenture also sets forth the rights, responsibilities, and obligations of each party with respect to the issuance of the Commercial Paper Notes.
2. ***2017 Commercial Paper Supplement to the Amended and Restated Master Installment Purchase Agreement (“2017 Commercial Paper Supplement”)***. The 2017 Commercial Paper Supplement supplements the Amended and Restated Master Installment Purchase Agreement, which was originally executed as of January 1, 2009 by and between the City and the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”), and provides for the City to make installment payments equal to debt service on the obligations issued by the Authority. Pursuant to the 2017 Commercial Paper Supplement, in consideration of Water System projects and components of projects to be delivered by the Corporation, the City will make subordinated installment payments on Commercial Paper Notes and any related reimbursement obligations under an LOC solely from net system revenues and certain other funds. The 2017 Commercial Paper Supplement describes the Commercial Paper Notes Components, Commercial Paper Subordinated Installment Payments, and covenants relating to the Commercial Paper Notes.

3. **Assignment Agreement.** Pursuant to the Assignment Agreement between the Authority and the Corporation, the Corporation assigns to the Authority the Corporation's right to receive installment payments made by the City under the 2017 Commercial Paper Supplement, which installment payments will be used pay debt service on the Commercial Paper Notes and any related reimbursement obligations under an LOC.
4. **Issuing and Paying Agency Agreement.** The Issuing and Paying Agency Agreement is an agreement between the Authority and U.S. Bank, National Association, which sets forth the procedures for issuing the Commercial Paper Notes, payment of principal and interest and the application of the proceeds.
5. **Dealer Agreements.** Each Commercial Paper Dealer Agreement is between the Authority and a dealer for the Commercial Paper Notes. Each Dealer Agreement sets forth the procedures, terms, conditions, and compensation for service as a commercial paper dealer. Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Capital Markets, LLC (each a "Commercial Paper Dealer") have been selected as dealers for the Commercial Paper Notes.
6. **Reimbursement Agreement, LOC, Fee Letter, and Bank Note.** The terms and conditions governing each LOC and the reimbursement process are memorialized in the Reimbursement Agreements by and between the City and the each LOC Provider (being Bank of America, N.A. and Bank of the West (each an "LOC Provider")). The LOC Provider agrees to advance funds (for a cost described in the Fee Letter) to the Issuing and Paying Agent in an amount sufficient to pay the principal and interest due on maturing Commercial Paper Notes, provided that such amount (together with amounts already outstanding) does not exceed the stated amount of the LOC. In the event that amounts derived from the sale of Commercial Paper Notes by the Commercial Paper Dealers are not sufficient to repay the advance from the LOC Provider, the City must pay a higher rate of interest to the LOC Provider based on a formula specified in each Reimbursement Agreement. The form of the Bank Note, included as Exhibit B to the Reimbursement Agreement, provides a form of a promissory note which would evidence the reimbursement obligations of the City to the LOC Provider.
7. **Offering Memorandum.** An Offering Memorandum is the public offering statement used in connection with the marketing and sale of the Commercial Paper Notes by the Commercial Paper Dealers. The Offering Memorandum describes, among other things, the terms of the Commercial Paper Notes, the security therefor, the LOC supporting such notes and the LOC Providers. Investors use this information to evaluate the credit quality of the Commercial Paper Notes.

The Disclosure Practices Working Group (the "DPWG") has reviewed a proposed form of Offering Memorandum for the Commercial Paper Notes in accordance with the applicable Disclosure Controls and Procedures.

The Offering Memorandum will be periodically updated on an annual basis, or as necessary if any material information changes, to provide current information to the marketplace. DPWG will review and approve subsequent updates prior to distribution of the Offering Memorandum.

III. FISCAL CONSIDERATIONS

Updates to Market Rates. Since Report No. 16-090 was published, market rates for commercial paper notes have remained stable. As of November 17, 2016, interest rates are at 0.55%. Contrastingly, the municipal bond market has been volatile after the November election and rates have increased to 3.87% as of November 17, 2016. These changes do not affect the projected costs for issuing commercial paper, but do make the decision to pursue commercial paper more financially reasonable in light of a volatile and uncertain bond market.

Payment of Costs Associated with the Commercial Paper Note Program. The Commercial Paper Notes principal outstanding will be taken out with the long term bonds in approximately a two year period. The Water Utility will continue to make the interest payments when due during this period. Commercial Paper program costs and the interest costs will be appropriated annually in the Water Utility Fund budget.

Based on Public Utilities Department projections for project spending and cash flow needs and current market conditions, the projected costs in Fiscal Year 2017 total \$0.3 million (\$0.2 million for program costs and \$0.05 million for interest costs). In Fiscal Year 2018, the projected costs total \$1.6 million (\$0.9 million for program costs, and \$0.7 million for interest costs). For the remainder of the two year period, the projected costs in the first half of Fiscal Year 2019 are \$1.1 million (\$0.5 million for program costs and \$0.6 million for interest costs).

There were annual budgetary debt service savings achieved from refunding the Water Utility's outstanding bonds with the June 2016 issuance of Subordinated Water Revenue Bonds, Refunding Series 2016B. The refunding provided an average annual debt service savings of approximately \$5.0 million annually in Fiscal Year 2017 through 2040. The Water Utility intends to utilize these annual savings to cover the costs for Commercial Paper Notes. In Fiscal Years 2017-19, no long term bonds are anticipated to be issued due to the proposed funding through the Commercial Paper Notes Program. The debt service costs for the long term bonds would have been higher compared to the Commercial Paper Notes Program costs presented above. This is expected to generate incremental savings for the Water Utility Fund during this period.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #1: Provide high quality public service

Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

This item was heard by the Budget and Government Efficiency Committee on November 16, 2016, and forwarded to full Council with the recommendation to adopt the resolution.

On March 23, 2015 City Council approved a resolution R-309577 to adopt revisions to the City's Debt Policy to add guidelines and implementation of a commercial paper notes program.

On February 10, 2015 City Council received financial training from the Independent Budget Analyst for an introduction to Commercial Paper Program and mechanics of implementation, presented by the City's Municipal Advisor.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

This item was heard at the November 16, 2016 meeting of the Budget and Government Efficiency Committee. A notice of public hearing concerning the adoption of the resolution is published 5 days prior to the City Council hearing.

The Public Utilities Department conducts community outreach on a project basis.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in the proposed financings include Montague DeRose and Associates, LLC (Municipal Advisor); Hawkins Delafield & Wood LLC (Bond and Disclosure Counsel); U.S. Bank National Association (Issuing and Paying Agent/Trustee); Bank of America, N.A. and Bank of the West (Letter of Credit Providers); Citigroup, Bank of America Merrill Lynch, and RBC Capital Markets (Commercial Paper Dealers); Moody's Rating Service and Fitch Ratings (Rating Agencies).

Respectfully submitted,



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

Attachment:

Attachment 1: Report No. 16-090 to Budget and Government Efficiency Committee dated November 4, 2016



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: November 4, 2016 REPORT NO. 16-090

ATTENTION: Budget and Government Efficiency Committee

SUBJECT: Authorization for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes Program

REQUESTED ACTION:

Forward the proposal for establishing the Subordinated Water Revenue Commercial Paper Notes Program to City Council for consideration and approval in accordance with the timeline established for the program.

STAFF RECOMMENDATION:

Forward the requested action for City Council's consideration and approval.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:**I. Background**

Below is an overview of commercial paper, discussion of current market conditions, specific parameters and plan of finance for the Water Revenue Commercial Paper Notes program, and analysis of financial considerations. Debt Management will be issuing a companion report to the City Council to discuss the legal documentation to establish the program subsequent to Committee review. Attachment 1 provides a complete listing of the legal documents to be authorized by the City Council to implement the Commercial Paper Program.

The Chief Financial Officer and the Water Utility have undertaken a multi-part process to streamline cash management in the Capital Improvement Program ("CIP") as efficiently and effectively as possible and to promote a more efficient use of available cash to complete projects. Staff is seeking authorization for a Commercial Paper Program for the Water Utility Fund, which is a strong cash management tool and will provide a "just in time" seamless funding source for several large scale Water System projects.

The authorization will allow the Water Utility to issue short-term debt to fund water capital needs, which will ultimately be refinanced into long-term bonded debt as the capacity nears the not to exceed levels that will be authorized by City Council. *This commercial paper program will be used for the Water System projects only.* The Commercial Paper Program will allow the Water Utility to take advantage of the low short-term borrowing rates and gives the Water

Utility greater financial flexibility. The Commercial Paper Program will enable the Water Utility to:

- Have quick access to the market and the flexibility to tailor borrowings to both market conditions and specific cash requirements,
- Only borrow amounts when funds are required (as capital project spending occurs),
- Immediately receive proceeds from the sale of Commercial Paper, and
- Avoid negative arbitrage and the risk of over-borrowing and incurring additional interest costs.

The Public Utilities Department has an active Water System CIP which supports the water system infrastructure for reliable water supply, the recycled water system, and other critical water projects. From time to time, bonds have been issued and state loans have been obtained to finance portions of the Water System’s CIP. In June 2016, the Water Utility issued new Water Bonds with \$80 million of proceeds and the Public Utilities Department projects to expend these funds by February 2017. As of October 31, 2016, the Water System has \$665 million in outstanding bonds and approximately \$60 million in outstanding Drinking Water State Revolving Fund (“SRF”) loans. Currently, funding for water projects are provided by a variety of sources which includes long-term bond financing, paygo, SRF loans, and grants to complete various Water System capital projects citywide.

II. Discussion

A. Commercial Paper Overview

Commercial paper is a short-term security which can be used as a cash management tool and to bridge capital funding gaps and delays. It is used by most agencies with large capital programs, such as SANDAG, San Diego County Water Authority, Los Angeles Department of Water and Power and the San Francisco Public Utilities Commission.

Key Features

| | |
|----------------------------|---|
| Authorized amount | <ul style="list-style-type: none"> • City Council specified amount that limits the total size of the Commercial Paper program specific to Water Utility |
| Short-term maturity | <ul style="list-style-type: none"> • Notes will have a maximum maturity of 270 days • Determined for each note at the time it is sold • Commercial Paper Notes are rolled until taken out with bonds |
| Liquidity support | <ul style="list-style-type: none"> • Provided by 2 highly-rated commercial bank credit facilities (“credit banks”) with irrevocable direct-pay Letters of Credit (“LOC”) |
| Credit ratings | <ul style="list-style-type: none"> • Requires at least two short-term credit ratings • Based on the credit of the credit banks |
| Amount outstanding | <ul style="list-style-type: none"> • Water Utility may have any amount from \$0 to the total authorized amount outstanding at any time |

| | |
|---------------------------------|---|
| Commercial Paper Dealers | <ul style="list-style-type: none">• Investment banks selected to periodically market the Water Utility's commercial paper notes to prospective investors• Uses an Offering Memorandum to market the Commercial Paper Notes. This disclosure document is different from Official Statements in that it mostly describes the financial position of the credit bank, instead of the Water Utility |
|---------------------------------|---|

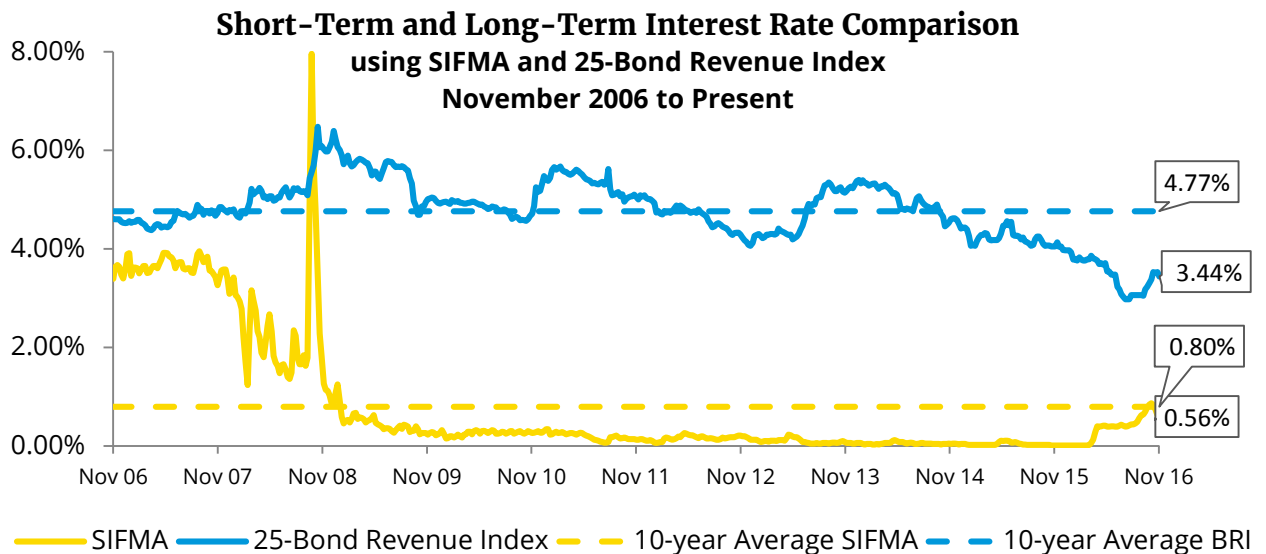
The Water Revenue Commercial Paper Notes can be issued with maturities ranging up to 270 days. The length of the notes are dependent on market conditions. The interest rate is set for the term of each note and interest is paid only at maturity. The principal and interest on each maturing note may be paid from a new commercial paper note (a “rollover”), from the proceeds of long-term bonds (“take out”), or from other funding sources, such as the Water Utility Fund operating budget.

These variable short term periods allows a commercial paper dealer to remarket the commercial paper notes to investors with specific needs, while securing short-term interest rates advantageous to the Water Utility. However, the continuous remarketing requires an available source of funds to repay the investor when the commercial paper notes mature. In order to provide this available source of funds, the commercial paper program requires a letter of credit (“LOC”) from a commercial bank, which provides credit enhancement and liquidity for the program. The LOC guarantees liquidity to investors when their notes mature for payment of principal and interest. As a result of the credit bank’s guaranty of payment, commercial paper programs hold the short-term credit ratings of the LOC credit bank.

B. Short-Term Market Trends and Current Capital Market Conditions¹

Capital Market Conditions. A key factor for the commercial paper market is short term interest rates. The graph below compares the SIFMA index (short term rate index) with the 25-bond revenue index (long term bond index). The SIFMA index will accurately reflect general municipal market sentiment and enable the City to estimate where its commercial paper “should” trade based on historical relationships. The SIFMA index has been consistently lower than the 25-bond revenue index except for approximately 2 weeks during the last 25 years (those two weeks occurred during the financial crisis in 2008).

¹ Per Office of the Independent Budget Analyst Report 15-06 recommendations, which were adopted in the Debt Policy, to provide an overview of capital market conditions, risk considerations and evaluation of market conditions before issuance of notes.



Sources: SIFMA Muni Swap Index Data & Bond Buyer Revenue Bond Index

Money market fund reform has impacted short-term rates with significant volatility over the last few weeks. SIFMA has increased this year from 0.01% to a high of 0.87%, and is currently 0.56%. This has been driven by both seasonal market outflows as well as a sharp decline in tax-exempt Money Market Fund assets by \$124 billion since the beginning of 2016.

There is evidence of the current short term market stabilizing with lower inventory levels compared to that of the last few weeks. With the likelihood for short term rate increases by the Federal Reserve (the market currently forecasts a 66% probability of a rate hike in December), it is not expected that the short-term rates will return to pre-money market reform levels in the near term, unless there is some extraordinary market event. However, the market may have already priced in most of the expected December rate increase. Looking forward to the next 1-2 years, while it is not possible to predict interest rates with certainty, it is likely that short term interest rates will continue to be less than long term interest rates which would result in the Water Utility incurring a lower cost of financing during the commercial paper period compared to long term bonds.

Buyers of Commercial Paper. The buyers of commercial paper are considered short-term investors, because their investments in commercial paper mature in 270 days or less. One of the attractive features commercial paper offers to an investor is individual maturities can be matched to the specific timing needs of an investor (such as 30 days, or 115 days). Buyers of commercial paper include major corporations and money market funds. Commercial paper is attractive to money market funds because it complies with the maturity limitation imposed on such funds, and the flexibility in setting the maturity of commercial paper may help the money market fund achieve or maintain the average maturity it is seeking. Money market funds are likely to continue to buy a given issue of commercial paper as it rolls over, and thus may own an issue for an extended period of time.

C. Risks of Commercial Paper

Capital Market Risks. Just like the market for any other security, supply and demand determine commercial paper note yields. The yield of a specific note depends on the maturity length, the amount financed, and the level of other money market rates and the credit rating of the LOC credit bank. For the issuer, market risks which can arise – driven by the capital markets – could cause the commercial paper note yields to rise.

Remarketing Risk. Commercial paper is subject to rollover remarketing risk—the risk that a note cannot be remarketed to a buyer at a reasonable rate of interest. Although the commercial paper market is often a stable source of financing, there have been some instances like the financial crisis of 2008 where bank troubles and investor concerns adversely impacted the commercial paper market making it difficult and/or expensive to remarket notes. At that time, many issuers were unable to remarket or rollover their notes, causing supporting LOC credit banks to pay principal and interest to noteholders and then offering loans to issuers to repay the LOC credit bank for the immediate liquidity. Although the 2008 financial crisis may have been an aberration and commercial paper markets subsequently returned to normal, it is possible that there could be another financial or market crisis that could hinder the Water Utility's ability to efficiently remarket its commercial paper notes. However, if the market for commercial paper does seize up for any reason, the Water Utility has the ability to turn commercial paper debt into a bank loan with the LOC credit bank until those notes can be remarketed.

Interest Rate Risk. There is concern of whether to lock in bond interest rates now or wait two years to lock in a 30-year borrowing rate. The risk is that the 30-year borrowing rate will be higher in two years than it is today. While commercial paper rates remain significantly lower than long term bond interest rates, they still run the risk of increasing in the future (see Fiscal Considerations for discussion). In addition, occasionally an inverse yield curve exists, where short term rates are higher than long-term rates. When this does occur, market forces usually soon correct this situation but it may alter financial decision making while the condition is present.

Letter of Credit Risks. In relying on the LOC credit bank's credit rating for each commercial paper note, the issuer runs the risk of the LOC's credit rating being reduced, withdrawn or suspended. The Water Utility also runs the risk of higher interest costs due to the bank's rating changes. Over the past ten years, some issuers have faced the need to replace LOC banks with declining creditworthiness. While this process has generally gone very smoothly and ample credit capacity has been available in the municipal market, it is possible that a LOC bank may have deteriorating credit and no replacement bank can be found. In that case, the City would likely face paying higher interest rates until the situation is corrected by finding another LOC bank or taking out the CP notes with fixed rate debt or another funding source. Additionally, although this situation has not occurred, if the LOC credit bank refuses to honor a request for payment to investors for maturing notes, the Water Utility Fund will need to pay principal and interest on all outstanding Commercial Paper Notes immediately.

D. Parameters of Water Revenue Commercial Paper Notes Program²

Updates to the City's Debt Policy (Section 3.15) were adopted in March 2015 for commercial paper borrowing as a short-term cash management tool. Consistent with the requirements of the Debt Policy, the following items are parameters that the Water Utility will establish for commercial paper through legislative authorization and administrative policies and procedures for the program.

- **Interest rate cap.** Following the Debt Policy guidelines, the Resolution to be approved by City Council will establish that commercial paper notes can be issued from time to time, provided that as to each such issuance, the interest rate on commercial paper notes may not exceed the lesser of 11% per annum or the maximum rate per annum permitted by law (currently 12%). Interest rates are not expected to reach these levels as the commercial paper current interest rates are 0.56% and the ten year average is 0.80% (since November 2006).
- **Maximum maturity of notes.** The maximum maturity of notes issued will be 270 days. Staff expects to issue notes up to 90-120 day range, depending on market conditions. Recent trends indicate commercial paper investors have exhibited a marked preference for maturities around 90 days.
- **Sizing and timing new note issuances.** Following the Debt Policy guidelines, the total commercial paper program is limited to an amount not to exceed 110% of the dollar value of the next planned long term borrowing for capital projects, described below under "Plan of Finance."

New commercial paper notes will be issued on a monthly basis to reimburse the prior month's capital expenditures initially funded with cash. The minimum amount of each commercial paper issuance are anticipated to be \$2,000,000 or more to minimize the amount of processing time and costs associated with a new note. The commercial paper dealers and authorized City staff will determine the maturity of each new note. Generally, commercial paper dealers provide maturity indications based on investor requests, market conditions, and/or scheduled economic indicators.

- **Tracking activity and reporting.** Debt Management Department will monitor and track new note issuances and rollover activity, interest rates, and costs on an ongoing basis. A quarterly memorandum will be provided to the City Council by Debt Management describing all outstanding notes and associated capital project financing activity, following the guidelines of the Debt Policy. Once a long term bond has been issued to refinance outstanding notes, pursuant to the Debt Policy, the Municipal Advisor of this transaction will work with staff to develop a retrospective analysis of all costs associated with using commercial paper borrowing in conjunction with long term bonds as compared to the alternative of issuing long term debt to finance capital projects in place of commercial paper borrowing.

² Office of the Independent Budget Analyst Report 15-06 provided recommendations, which were adopted in the Debt Policy, for sizing, not-to-exceed caps, and ongoing reporting which are addressed in program's parameters.

- **Budgeting costs.** All interest costs and ongoing fees related to the administration of commercial paper are to be budgeted and paid out of a newly established Commercial Paper Payments and Fees commitment item within the Water Utility Operating Budget. Debt Management Department will assist Public Utilities Department in preparing estimates of commercial paper-related interest expenses and fees based on estimates of commercial paper draws for eligible project costs provided by Public Utilities Department. Staff will use interest rate assumptions that are higher than the then-current market rates, and document those assumptions so that they are easy to identify at a later date.
- **Policies and Procedures for issuing Commercial Paper Notes.** A comprehensive Commercial Paper Policies and Procedures Manual is being developed by the Debt Management Department, Office of the City Comptroller, Public Utilities Department, Office of the City Treasurer and Financial Management Department to document the policies and procedures that City staff will utilize in the day to day management of the commercial paper program and the other parties involved in the issuance and administration of the program.
- **Future Council Authorizations.** Debt Management will return to City Council to seek authorization for long-term bonds to take out commercial paper when the amount of notes outstanding nears maximum capacity. Additionally, Debt Management will return to City Council to seek approval or renewal of Letter of Credits and Dealer Agreements upon expiration or termination of each respective agreement. Should Public Utilities Department require an increase in the total capacity of the program, Debt Management will return to City Council for authorization to change program limits.

E. Plan of Finance

- **Issuer:** Public Facilities Financing Authority of the City of San Diego (“Authority”).
- **Authorized Amount:** up to \$250 million outstanding at any time.
- **Commercial Paper Term:** this program will be an ongoing program. The authorization is currently sized to cover the next two years of Water System CIP needs.
- **Projects:** The Public Utilities Department projects that approximately \$243 million is needed to fund the next two years of the Water System’s CIP projects. The commercial paper proceeds of up to \$250 million is projected to be utilized for the following CIP needs by asset category:
 - Pure Water \$ 56 million
 - pipeline projects¹ \$ 54 million
 - pipeline transmission projects \$ 60 million
 - pump station projects \$ 10 million
 - storage projects¹ \$ 14 million
 - other projects² \$ 25 million
 - water treatment plant projects \$ 31 million

¹ Includes projects where funding changed from SRF financing to commercial paper financing (Pacific Beach Pipeline and Miramar Clearwells).

² Includes the Advanced Metering Infrastructure (“AMI”) project.

- **Structure:** The Water System-supported Water Revenue Commercial Paper Notes will be issued under the 2009 Master Indenture and the 2009 Amended and Restated Master Installment Purchase Agreement. Water System revenue is the repayment pledge.
- **Ratings:** Moody's and Fitch will issue short-term ratings for the Water Revenue Commercial Paper Notes. These ratings are based on the credit quality and strength of each LOC credit bank supporting the program.
- **Tax Status:** The commercial paper notes will be issued tax-exempt. Interest on the commercial paper notes will not be included in gross income for federal income tax purpose and will be exempt from present State of California personal income taxes.
- **Interest Payments:** The Commercial Paper Program is structured so that the Water Utility Fund will pay interest expenses on an ongoing basis as each note matures.
- **Principal Payments:** Principal on the commercial paper notes will be paid solely from funds drawn under the LOC. The Water Utility's intent is to take out outstanding commercial paper notes with long-term bonds.
- **Security and Repayment:** Under the terms of the financing documents, the commercial paper notes are limited obligations of the Authority payable solely from the Installment Payments made by the Water Utility Fund. The Installment Payments are secured by and payable solely from the Net System Revenues of the Water System. Net System Revenue is the income derived from the operation of the Water System (primarily water rates and charges) less the maintenance and operation costs. Such Installment Payments with respect to the commercial paper notes will be made on a subordinated basis, on parity with the outstanding Subordinated 2012A Water Bonds, and the Subordinated 2016 A&B Water Bonds.

F. Financing Timeline:

The following are the critical milestones related to the execution of the Commercial Paper Notes:

| | |
|--------------------------|--|
| November 16, 2016 | Budget and Government Efficiency Committee approval |
| December 6, 2016 | City Council authorization of documents and financing plan |
| Mid-January 2017 | Distribute Offering Memorandum to investors |
| Late-January 2017 | Document signing and closing |
| Week of January 30, 2017 | First Note issue anticipated to fund Water System CIP |

G. Commercial Paper Program Financing Team

The Financing Team consists of staff of the Department of Finance, including the Chief Financial Officer and staff of the Debt Management Department, the Office of the City Comptroller, and the Treasurer's Office. The Financing Team also includes staff of the City Attorney's Office and the Public Utilities Department.

The external Financing Team members maintain and provide access to the financial markets and enhance the marketability of the Water Utility's commercial paper notes. External members include: Montague DeRose & Associates, LLC as the Municipal Advisor; Hawkins Delafield & Wood LLP as Bond and Disclosure Counsel; U.S. Bank National Association as Issuing and Paying Agent and Trustee; and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Capital Markets, LLC as Commercial Paper Dealers.

Municipal Advisor: Montague DeRose & Associates, LLC was selected to provide municipal advisory services for this program through a competitive RFP process utilizing the City's As-Needed Financial Advisors Pool based on the firm's experience in launching commercial paper programs for numerous agencies and the fee proposal. The fee is a not to exceed \$50,000 plus out of pocket expenses not to exceed \$5,000 to be paid out of note proceeds.

Bond Counsel: The City Attorney's Office has identified, via an RFP process, Hawkins Delafield & Wood LLP to serve as Bond and Disclosure Counsel for the Water System Commercial Paper Notes Program for an amount of \$95,000 for services, plus out-of-pocket expenses not to exceed \$5,000. The fees payable to Bond and Disclosure Counsel are to be paid out of note proceeds.

Issuing and Paying Agent: U.S. Bank National Association was selected to provide Issuing and Paying Agent services for this program through a competitive RFP Process based on their significant experience providing such services and that they provide a user-friendly reporting system for administrative and tracking purposes. The proposed fees are \$7,000 at closing, to be paid out of note proceeds, and annual fees of \$4,000 for administration and \$18 per commercial paper trade.

Trustee: U.S. Bank National Association currently also acts as trustee for the outstanding Water Revenue Bonds. As a Trustee for the commercial paper notes, U.S. Bank's role is to maintain the Costs of Issuance account and to transfer Water Utility's interest payments for commercial paper notes to the Issuing and Paying Agent to reimburse the LOC credit bank.

Letter of Credit Banks: A direct-pay LOC represents a bank's promise to pay principal and interest when due for a defined period of time and subject to certain conditions. Under this commercial paper program, the Issuing and Paying Agent will draw upon the LOC to make principal and interest payments to investors. In October 2016, the City issued an RFP to banks requesting direct-pay letters of credit and/or alternative bank products to support the commercial paper program. Based on analysis of financing needs, structure, evaluations of the proposals, staff in conjunction with the Municipal Advisor, have shortlisted Bank of America, National Association and Bank of the West to provide credit services. The terms and conditions with each credit bank are being finalized.

Commercial Paper Dealers: The role of a commercial paper dealer is to periodically market the Water Utility Fund’s commercial paper to prospective investors, to sell the commercial paper notes at the time of issuance and to resell the rollover commercial paper notes at maturity. Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Capital Markets, LLC were selected to serve as Commercial Paper Dealers for the program. The firms were selected through a competitive RFP process utilizing the City’s qualified list for investment banking services and evaluated based on prior experience with similar commercial paper programs for other California governmental entities, technical approach and proposed marketing approach for the Water Utility commercial paper. The commercial paper dealers offered the remarketing fee of 0.045 percent of each firm’s the weighted average of commercial paper notes outstanding.

FISCAL CONSIDERATIONS:

Rationale for Use of Commercial Paper in Construction Financing.

Using commercial paper as part of a larger financing strategy for a construction program is prudent. Like many public agencies, the Water System lacks the cash resources to finance a program of the magnitude of the Water System CIP on a “pay as you go” basis. As a result, the City is financing the Water System’s CIP using various forms of debt financing, where debt is issued to investors, who receive periodic payments of principal and interest from the City over the life of the debt. As noted above, Commercial Paper is a short-term financing instrument. Because it has a very short maturity compared to a 20-year loan or 30-year bond, the interest rates charged on commercial paper notes are usually significantly lower than the rates for long-term bonds, although the difference between these rates varies based on market conditions.

For public agencies embarking on large construction programs that face uncertainty concerning the timing of their construction cash flow requirements, commercial paper offers much greater flexibility than a long-term bond issue, along with lower interest rates. Commercial paper allows an issuer to obtain funds as they are needed, in whatever amounts and with whatever frequency is necessary, rather than relying on a bond issue that takes months to prepare and implement, and may leave the issuer with either more or less bond proceeds than it needs to meet its near-term cash flow requirements. In this context, commercial paper is typically used as a form of “just in time financing,” to be refinanced at a later date with long-term bonds.

Costs of Issuance. The following is a summary of estimated financing costs (“costs of issuance”) associated with the Subordinated Water Revenue Commercial Paper Notes Program, **excluding interest payments**. The closing costs will be financed with commercial paper notes. The annual program costs assume monthly issuances of commercial paper notes, and these will be budgeted and paid from Water Utility Operating Funds.

| <i>Estimated Costs of Issuance for Program size of \$250 million</i> | <i>Costs at Closing</i> | <i>Annual Costs for the Program (based on Fiscal Year 2018 cost projections)</i> |
|--|-------------------------|--|
| Bond Counsel Fees and Expenses | \$100,000 | - |
| General Disclosure Counsel | 3,000 | - |

| | | |
|-------------------------------------|------------------|------------------------|
| Municipal Advisor Fees and Expenses | 55,000 | - |
| Letters of Credit Facility Fees | - | \$810,000 ¹ |
| Letter of Credit Counsel | 65,000 | - |
| Commercial Paper Dealer Fees | 1,000 | 50,000 ² |
| Dealer Counsel Fee | 7,500 | - |
| Rating Fees | 62,000 | 45,000 ³ |
| Bank Note Rating Fees | 13,000 | - |
| Issuing and Paying Agent Fees | 7,000 | 5,300 ⁴ |
| CUSIP Fees | 500 | - |
| Misc. Fees and Contingency | 14,600 | - |
| Total Estimated Costs | \$329,700 | \$910,300 |

Assumptions for annual costs:

1. Letter of Credit Facility Fees are estimated based on proposals from shortlisted credit banks. Projections assume the maximum cost for draws.
2. Commercial Paper Dealer Fees: All Dealers will charge 0.045% annually of the average amount of outstanding notes sold by each Dealer on a quarterly basis. Projections assume monthly issuances.
3. Ratings: Ongoing surveillance ratings are required to be maintained, to be paid annually each January.
4. IPA Fees: Annual fees are \$4,000; assumes six commercial paper trades per month at a rate of \$18 per trade.

Interest Costs. Based on the projected spending schedule and the issuances required to support the Water System CIP, the projected commercial paper interest costs at current rates for the rest of Fiscal Year 2017 is \$45,300 and in Fiscal Year 2018 it is projected to cost \$684,000. These are projections based on current rates and are subject to change. The interest costs will be budgeted and paid from Water Utility Operating Funds. Interest will be paid on an ongoing basis as commercial paper notes mature.

Commercial Paper and Long-Term Bonds Analysis. In early 2015, City Council received a memo and an addendum from Debt Management that described analysis of Commercial Paper under various scenarios and possibilities. With a more detailed plan in anticipation of the Water Utility Fund needs, an analysis was run to compare the costs for an initial issuance of commercial paper to be taken out in two years by 30-year bonds as compared with an up-front issuance of a 30-year bonds. Below is an analysis of present value savings, based on current rates which are subject to change:

| | Commercial Paper Rate | Estimated Long Term Bond Rate | Rate Difference | Estimated Present Value Debt Service Savings from Commercial Paper Notes* |
|-----------------------------|-----------------------|-------------------------------|-----------------|---|
| Water Utility Current Rates | 0.56% | 3.47% | 2.91% | \$13.0 Million |

Note: based on current rates, subject to change.

* Incorporates all Costs of Issuance for Commercial Paper (Letter of Credit Fees, Dealer Fees), and Long Term Bonds Costs of Issuance (Bond and Disclosure Counsel, Underwriter's Discount, etc.)

The scenario described above assumes \$250 million of commercial paper drawn over a period of two years and no change in long term interest rates between the issuance of commercial paper and the issuance of long term bonds. Under such conditions, due to utilizing commercial paper's lower short term interest rates and as-needed borrowing structure, present value savings are realized.

While present value savings are realized, an increase in long term interest rates between the issuance of commercial paper and the issuance of long term bonds at a later date could result in the elimination of the arbitrage difference. At current interest rate levels, if the long term interest rates would rise 0.75% (break-even rate) between the issuance of commercial paper and the issuance of long term bonds, the present value savings advantage presented above would be eliminated.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #1: Provide high quality public service
Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

The City has not issued Commercial Paper in the past but the City Council has received a training in 2015 on commercial paper process and benefits.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

This item is docketed for Budget and Government Efficiency Committee. A notice of public hearing concerning the adoption of the resolution is published 5 days prior to the City Council hearing.

The Public Utilities Department conducts community outreach on a project basis.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in the proposed financing include Montague DeRose and Associates, LLC (Municipal Advisor); Hawkins Delafield & Wood LLP (Bond and Disclosure Counsel); U.S. Bank National Association (Issuing and Paying Agent/Trustee); Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Capital Markets, LLC (Commercial Paper Dealers); Moody's Rating Service and Fitch Ratings (Rating Agencies).

Respectfully submitted,



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

Attachment: 1. Legal Documents for Establishment of the Water Revenue Commercial Paper Notes Program

Attachment 1

Legal Documents to be authorized by City Council to implement the Water Revenue Commercial Paper Notes Program

1. *Resolution of the City Council*
2. Form of the *Fifth Supplemental Indenture* supplementing and amending that certain Indenture dated as of January 1, 2009, as supplemented and amended by and between the Public Facilities Financing Authority of the City of San Diego and U.S. Bank National Association, as Trustee
3. Form of the *2016 Commercial Paper Supplement to the Amended and Restated Master Installment Purchase Agreement (“MIPA”)* by and between the City of San Diego and the San Diego Facilities and Equipment Leasing Corporation
4. Form of the *Assignment Agreement* by and between the San Diego Facilities and Equipment Leasing Corporation and the Public Facilities Financing Authority of the City of San Diego
5. Form of the *Issuing and Paying Agency Agreement* by and between the Public Facilities Financing Authority of the City of San Diego and U.S. Bank National Association, as Issuing and Paying Agent
6. Form of the *Dealer Agreement* by and between the Public Facilities Financing Authority of the City of San Diego and Dealers – 3 agreements will be executed
7. Form of the *Reimbursement Agreement and exhibits* by and between the City of San Diego and Letter of Credit Banks – 2 agreements will be executed
8. Form and distribution of the *Offering Memorandums* in connection with the issuance of the Subordinated Water Revenue Commercial Paper Notes – 2 Offering Memorandums will be authorized and distributed

RESOLUTION NUMBER R-_____

DATE OF FINAL PASSAGE _____, 2016

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN DIEGO (I) APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A 2017 COMMERCIAL PAPER SUPPLEMENT TO AMENDED AND RESTATED MASTER INSTALLMENT PURCHASE AGREEMENT AND ONE OR MORE REIMBURSEMENT AGREEMENTS; (II) APPROVING THE FORM AND AUTHORIZING THE DISTRIBUTION OF THE OFFERING MEMORANDUM IN CONNECTION WITH THE ISSUANCE BY THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO OF ITS SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES IN ONE OR MORE SERIES OR SUBSERIES; (III) AUTHORIZING THE CITY ATTORNEY TO APPOINT BOND COUNSEL AND DISCLOSURE COUNSEL; (IV) AUTHORIZING THE EXECUTION, DELIVERY AND PERFORMANCE BY THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO OF A FIFTH SUPPLEMENTAL INDENTURE, AN ASSIGNMENT AGREEMENT, AN ISSUING AND PAYING AGENCY AGREEMENT AND ONE OR MORE DEALER AGREEMENTS; (V) APPROVING AND AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OR SUBSERIES OF THE AUTHORITY'S SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES FROM TIME TO TIME; AND (VI) APPROVING OTHER DOCUMENTS AND ACTIONS IN CONNECTION THEREWITH.

WHEREAS, the Joint Exercise of Powers Agreement, dated as of May 14, 1991, as amended and restated as of January 11, 1999, further amended and restated on October 29, 2002, and further amended and restated as of January 1, 2013, by and among The City of San Diego, California (City), the City solely in its capacity as the designated Successor Agency to the former Redevelopment Agency of the City of San Diego and the Housing Authority of the City of

San Diego (Housing Authority), establishes the Public Facilities Financing Authority of the City of San Diego (Authority), a California joint exercise of powers authority duly organized to provide financial assistance to the City; and

WHEREAS, the San Diego Facilities and Equipment Leasing Corporation (Corporation) is a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (State) that was incorporated to provide financial assistance to the City; and

WHEREAS, the City desires to provide for the issuance tax-exempt governmental subordinated water revenue commercial paper notes from time to time in one or more series or subseries (Commercial Paper Notes) that are payable from subordinated installment payments secured by Net System Revenues (as defined in the herein referenced Installment Purchase Agreement) of the City's Water Utility Fund (Water Utility Fund) to (i) provide short-term financing for the design, acquisition, construction, installation, and improvement of components of the City's water system (Water System), (ii) reimburse the City for eligible expenditures in accordance with the herein described Reimbursement Resolution and (iii) pay costs of issuance incurred in connection with the issuance of Commercial Paper Notes; and

WHEREAS, to facilitate such short-term financing, the City and the Corporation propose to provide for the issuance from time to time of up to \$250,000,000 aggregate principal amount of subordinated water revenue bonds in the form of Commercial Paper Notes from time to time, in one or more series or subseries, for the purposes set forth above; and

WHEREAS, in order to effect the design, acquisition, construction and installation of improvements to the Water System, the Corporation sold components of the Water System improvement project to the City pursuant to an Amended and Restated Master Installment

Purchase Agreement, dated as of January 1, 2009, a 2009A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009B Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2009, a 2010A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2010, a 2012A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2012, and a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016 (collectively, the Installment Purchase Agreement), each by and between the City and the Corporation, pursuant to which the Corporation has agreed to sell certain improvements and additions (comprised of various components, each, a Component) to the Water System and the City has agreed from time to time to purchase certain Components as specified in certain supplements to the Installment Purchase Agreement; and

WHEREAS, in connection with the execution and delivery of each prior supplement, the Authority issued a series of its Water Revenues Bonds under an Indenture, dated as of January 1, 2009, as supplemented and amended by that certain First Supplemental Indenture, dated as of June 1, 2009, that certain Second Supplemental Indenture, dated as of June 1, 2010, that certain Third Supplemental Indenture, dated as of April 1, 2012, and that certain Fourth Supplemental Indenture, dated as of June 1, 2016 (as amended and supplemented, the Indenture), each by and between the Authority and U.S. Bank National Association, or any successor or substitute trust company or bank having trust powers, as trustee (Trustee), each with an appropriate series, lien, and purpose designation (as currently outstanding, the Outstanding Subordinated Water Revenue Bonds); and

WHEREAS, the City has installment purchase obligations in connection with the following revenue bonds: the Public Facilities Financing Authority of the City of San Diego

Subordinated Water Revenue Bonds, Refunding Series 2012A (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), of which \$130,680,000 is currently outstanding; the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2016A (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), of which \$40,540,000 is currently outstanding; and the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Refunding Series 2016B (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), of which \$493,785,000 is currently outstanding; and outstanding Senior Drinking Water State Revolving Fund loans (SRF Loans); and

WHEREAS, by Resolution Number R-309971, enacted on September 24, 2015 (Reimbursement Resolution), the City Council declared its intent to use proceeds of indebtedness to reimburse itself for eligible expenditures in accordance with section 1.150-2 of Treasury Regulations; and

WHEREAS, this Resolution will approve the execution and delivery of a Fifth Supplemental Indenture (Fifth Supplemental Indenture) in conjunction with the issuance of Commercial Paper Notes from time to time, in one or more series or subseries, which Commercial Paper Notes will be secured by a subordinate pledge of Net System Revenues; and

WHEREAS, in furtherance of the issuance of the Commercial Paper Notes under the Indenture, the Authority and U.S. Bank National Association (Issuing and Paying Agent) propose to enter into an Issuing and Paying Agency Agreement (Issuing and Paying Agency Agreement); and

WHEREAS, in order to secure the payment of the Commercial Paper Notes, the City and the Corporation propose to enter into a 2017 Commercial Paper Supplement to Amended and Restated Installment Purchase Agreement (2017 Commercial Paper Supplement) pursuant to which the Corporation will agree to sell certain Components of the Water System to the City and the City will agree to purchase such Components; and

WHEREAS, this Resolution will authorize the execution and delivery of the 2017 Commercial Paper Supplement in conjunction with the issuance of Commercial Paper Notes from time to time, in one or more series or subseries, which Commercial Paper Notes will be secured by a subordinate pledge of Net System Revenues; and

WHEREAS, the Corporation will assign all of its right, title, and interest in and to the 2017 Commercial Paper Supplement to the Authority to support the payment of debt service on the Commercial Paper Notes pursuant to an Assignment Agreement (Assignment Agreement) by and between the Corporation and the Authority; and

WHEREAS, in order to provide additional security for the Commercial Paper Notes, the City proposes to enter one or more reimbursement agreements (each, together with the related fee letter agreement, a Reimbursement Agreement) with, and deliver bank notes (each, a Bank Note) to, each Credit Provider (Credit Provider), the initial ones being Bank of the West and Bank of America, N.A., pursuant to which the Credit Provider will each issue an irrevocable direct-pay letter of credit to provide credit enhancement and liquidity support for any authorized series or subseries of the Commercial Paper Notes (each, a Commercial Paper Notes Credit Support Instrument); and

WHEREAS, the City proposes to enter into one or more dealer agreements (each, a Dealer Agreement) with a dealer (Dealer), the initial ones being Citigroup Global Markets Inc.,

Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC, to serve as dealers for the Commercial Paper Notes; and

WHEREAS, pursuant to the San Diego Municipal Code, including Section 22.4108 (as amended by Ordinance No. 0-19320), the Disclosure Practices Working Group (DPWG) is required to review disclosure documents of the City and related entities, and DPWG is required to review and approve a proposed form of Offering Memorandum for the Commercial Paper Notes (Offering Memorandum) in accordance with the applicable Disclosure Controls and Procedures; and

WHEREAS, there has been presented to this meeting a proposed form of Offering Memorandum relating to the issuance by the Authority of its Commercial Paper Notes, which will be used in marketing the Commercial Paper Notes; and

WHEREAS, there has been presented to this meeting the following documents:

a. A proposed form of 2017 Commercial Paper Supplement, by and between the City and the Corporation, a copy of which 2017 Commercial Paper Supplement is on file in the Office of the City Clerk as Document No. _____, supplementing the Installment Purchase Agreement, under which 2017 Commercial Paper Supplement the City will make Commercial Paper Subordinated Installment Payments (as defined in the 2017 Commercial Paper Supplement) to the Corporation; and

b. A proposed form of Assignment Agreement, by and between the Corporation, as assignor, and the Authority, as assignee, a copy of which Assignment Agreement is on file in the Office of the City Clerk as Document No. _____ under which Assignment Agreement the Corporation will assign all of its right, title, and interest in and to the 2017 Commercial Paper

Supplement to the Authority to support the payment of debt service on the Commercial Paper Notes; and

c. A proposed form of Fifth Supplemental Indenture, by and between the Authority and the Trustee, a copy of which Fifth Supplemental Indenture is on file in the Office of the City Clerk as Document No. _____, under which Fifth Supplemental Indenture the Authority will issue its Commercial Paper Notes and pursuant to which certain amendments will be made to the Indenture; and

d. A proposed form of Issuing and Paying Agency Agreement, by and between the Authority and the Issuing and Paying Agent, a copy of which Issuing and Paying Agency Agreement is on file in the Office of the City Clerk as Document No. _____, pursuant to which the Issuing and Paying Agent will facilitate the issuance of the Commercial Paper Notes; and

e. A proposed form of Dealer Agreement, by and between the Authority and a Dealer, a copy of which Dealer Agreement is on file in the Office of the City Clerk as Document No. _____, under which Dealer Agreement each Dealer will serve as dealer for the Commercial Paper Notes; and

f. A proposed form of Reimbursement Agreement, by and between the City and a Bank, a copy of which Reimbursement Agreement is on file in the Office of the City Clerk as Document No. _____, under which Reimbursement Agreement each Credit Provider will issue a direct-pay letter of credit to provide credit enhancement and liquidity support for any authorized series or subseries of the Commercial Paper Notes; and

g. A proposed form of the Offering Memorandum, a copy of which Offering Memorandum is on file in the Office of the City Clerk as Document No. _____, which Offering Memorandum will be used in marketing the Commercial Paper Notes; and

WHEREAS, a notice of public hearing concerning the adoption of this Resolution was duly published once at least five (5) days prior to such hearing in a newspaper of general circulation in the City; and

WHEREAS, the City is authorized to undertake the actions described in this Resolution pursuant to its Charter and the Constitution and applicable laws of the State of California; NOW, THEREFORE,

BE IT RESOLVED, by the City Council of the City of San Diego, as follows:

Section 1. The City Council hereby finds and determines that the statements set forth above in the recitals to this Resolution are true and correct.

Section 2. The City Council hereby finds that financing Components of the Water System as set forth in the recitals to this Resolution will provide significant public benefits in accordance with the criteria specified in California Government Code Section 6586.

Section 3. The City hereby authorizes and approves and requests the Authority authorize and approve the issuance of its tax-exempt governmental Subordinated Water Revenue Commercial Paper Notes from time to time, in one or more series or subseries, in an aggregate principal amount not to exceed \$250,000,000 to provide funds for financing capital improvements to the Water System and pay costs of issuance incurred in connection with the issuance of the Commercial Paper Notes, from time to time; provided that as to each such

issuance, the financing must achieve a true interest cost not to exceed the lesser of eleven percent (11%) or the maximum rate per annum permitted by law. The City also authorizes and approves the issuance of the Bank Notes to the Credit Provider, in each case payable from commercial paper subordinated installment payments to be made by the City pursuant to the 2017 Commercial Paper Supplement and the Reimbursement Agreement. The Commercial Paper Notes shall be issued at such times, with such dates, maturity dates and interest rates in such principal amounts and on such commercially reasonable terms as the officers of the Authority, in consultation the City's Chief Operating Officer, the City's Chief Financial Officer, the City's Director of the Debt Management or the City Comptroller, shall in their discretion determine to be in the best interests of the City and the Authority.

Section 4. The forms and content of the forms of the 2017 Commercial Paper Supplement, the Assignment Agreement, the Fifth Supplemental Indenture, the Issuing and Paying Agency Agreement, the Dealer Agreement and the Reimbursement Agreement (collectively, the Financing Documents) are hereby approved, and the execution, delivery and performance thereof by the City of the agreements to which it is a party is hereby approved. The Chief Operating Officer, the Chief Financial Officer of the City and each of them or any of their respective designees (each an Authorized Signatory) are hereby jointly and severally authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Financing Documents to which the City is a party, and the Authority is hereby requested to execute and deliver the Financing Documents to which it is a party, in conjunction with the issuance of Commercial Paper Notes, in one or more series or subseries, substantially in the forms submitted to this meeting, and the City Clerk is authorized to attest thereto, with such additions and changes therein as an Authorized Signatory shall determine are necessary or desirable and

approve as being in the best interests of the City, and as approved as to form by the City Attorney or his, her or their specified designee, and with such other changes that may be required by Hawkins Delafield & Wood LLP, Bond Counsel to the City (Bond Counsel), such approval to be conclusively evidenced by the execution and delivery thereof. The 2017 Commercial Paper Supplement shall specify a subordinate pledge of Net System Revenues for the Commercial Paper Notes.

Section 5. The form and content of the proposed Offering Memorandum substantially in the form presented to and considered at this meeting, are hereby approved, with such changes thereto as an Authorized Signatory shall determine are necessary and desirable and may require or approve, such approval to be conclusively evidenced by the delivery of the Offering Memorandum for release to prospective purchasers of the Commercial Paper Notes. The distribution of electronic or physical copies of the Offering Memorandum to persons who may be interested in the purchase of the Commercial Paper Notes is hereby authorized and approved.

Section 6. The City Attorney or his, her or their specified designee is authorized to retain Hawkins Delafield & Wood LLP as bond counsel and disclosure counsel for the City and the Authority in connection with the issuance of Commercial Paper Notes under such contracts or other arrangements as the City Attorney or his, her or their specified designee shall approve and believes to be in the best interests of the City. Such contract or other arrangements shall be in an amount not to exceed \$100,000.

Section 7. The City hereby acknowledges that the obligation of the City to make Commercial Paper Subordinated Installment Payments in amounts equal to the principal of and interest accrued on the Commercial Paper Notes and any related reimbursement obligations under a Commercial Paper Notes Credit Support Instrument shall be a limited obligation of the City payable solely from Net System Revenues (as defined in the Installment Purchase Agreement) and other funds provided for under the 2017 Commercial Paper Supplement and does not constitute a debt of the City or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Section 8. The anticipated source of revenues for payment of the Commercial Paper Notes is the Commercial Paper Subordinated Installment Payments and the other funds provided for under the 2017 Commercial Paper Supplement and the Fifth Supplemental Indenture. The pledge of and the right of payment for the Net System Revenues that secures the related Commercial Paper Subordinated Installment Payments shall be subordinate to, and such payment may only be made after the satisfaction on an annual basis of, the Parity Obligations (as defined in the Installment Purchase Agreement) and on a parity with the payment of certain Subordinated Obligations (as defined in the Installment Purchase Agreement).

Section 9. All actions heretofore taken by any officers, employees, or agents of the City with respect to the issuance, delivery, or sale of the Commercial Paper Notes are hereby approved, confirmed and ratified; and the Chief Operating Officer, the Chief Financial Officer, the Director of the Debt Management, the City Comptroller, the City Attorney and any such other officers, employees, or agents of the City as may be authorized by the Mayor of the City, the Chief Operating Officer or the Chief Financial Officer (each a City Representative) are hereby authorized and directed, for and in the name of and on behalf of the City, to do any and

all things and take any and all actions, including, without limitation, pay necessary and appropriate fees and expenses, and execute and deliver any and all certificates, agreements and other documents which they, or any of them, may deem necessary or desirable to consummate the transactions evidenced by the Financing Documents referenced herein in accordance with this Resolution and the Financing Documents approved herein and other documents authorized by this Resolution, including, without limitation, payment of necessary and appropriate fees and expenses of bond counsel, disclosure counsel, municipal advisor and other professionals retained by the City, and execute and deliver any and all certificates, agreements and other documents (including, but not limited to, from time to time the tax compliance certificates and any amendments or supplements to the Financing Documents) which they, or any of them, may deem necessary or advisable to consummate the transactions evidenced by the Financing Documents referenced herein in accordance with this Resolution; provided that any funds derived from the proposed financing of the Water System shall be restricted to benefit the Water System. In addition, any City Representative, in consultation with the Chief Financial Officer, is hereby specifically authorized to approve additions and changes to the Financing Documents authorized by this Resolution, as any City Representative shall determine are necessary or desirable and shall require or approve and that such City Representative believes to be in the best interests of the City, such determination shall be conclusively evidenced by the execution and delivery of such Financing Documents by the City; and provided further that no such addition or changes may be inconsistent with the limitations set forth in Section 4 hereof and provided further that such changes on additions are consistent with limitations in Section 3 herein. Such other officials, employees, and agents of the City as may be authorized by any Authorized Signatory are hereby are each 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 and execute and deliver any and all certificates, agreements, and other documents which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Commercial Paper Notes and the Financing Documents and other documents authorized by this Resolution, the transactions authorized hereby and evidenced by the Financings Documents and the disbursement of proceeds thereof in accordance with this Resolution. Without limiting the foregoing, the Authorized Signatories, without further action of the City Council, are hereby authorized and directed, jointly and severally, for and in the name of and on behalf of the City, to execute and deliver any amendments, supplements, restatements and replacements of the Reimbursement Agreements, to extend the term of any Commercial Paper Notes Credit Support Instrument or increase or decrease the maximum principal amount of Commercial Paper Notes supported by any Commercial Paper Notes Credit Support Instrument; provided that any such documents shall be substantially in the forms of the equivalent documents executed and delivered by an Authorized Signatory pursuant to this Resolution or pursuant to any other authorization from the City Council in conjunction with the Commercial Paper Notes. The Authorized Signatories, without further action of the City Council, are hereby authorized and directed, jointly and severally, for and in the name of and on behalf of the City, to execute and deliver any reimbursement agreements, fee letter agreements, revolving notes, direct placement revolving credit agreements or direct placement revolving notes, to provide for the delivery of additional Commercial Paper Notes Credit Support Instruments from time to time, and the Authorized Signatories, without further action of the City Council, are hereby further authorized and directed, jointly and severally, for and in the name of and on behalf of the City, to execute and deliver any amendments, supplements, restatements or replacements of any such reimbursement agreements,

fee letter agreements or revolving notes, to extend the term of such additional Credit Support Instrument or increase or decrease the maximum principal amount of Commercial Paper Notes supported by such additional Credit Support Instrument, and to authorize any necessary designation of additional series or subseries of the Commercial Paper Notes (and any corresponding establishment of subaccounts with respect to such additional series or subseries) from time to time or any amendments, supplements, restatements or replacements of the Financing Documents to facilitate such delivery or amendment; provided that any such documents comply with the provisions of Section 3 of this Resolution or any other authorization from the City Council in conjunction with the Commercial Paper Notes. The Mayor of the City and the Chief Financial Officer of the City, without further action of the City Council, are further authorized and directed, jointly and severally, for and in the name of and on behalf of the City, to amend or supplement the Offering Memorandum from time to time and cause the distribution thereof, subject to the prior review and approval of the Offering Memorandum, as amended or supplemented, by the City's Disclosure Practices Working Group.

Section 10. The Authorized Signatories are each hereby authorized, and any one of the Authorized Signatories is hereby directed, for and in the name and on behalf of the City, to take all actions and execute any and all documents necessary or advisable and to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate, carry out, give effect to and comply with the terms and intent of this Resolution and the consummation of the transactions contemplated hereby.

Section 11. The Chief Financial Officer is authorized to establish one or more special interest-bearing account(s) to deposit proceeds of the Commercial Paper Notes.

Section 12. This Resolution shall take effect immediately upon its adoption.

APPROVED: JAN I. GOLDSMITH, City Attorney

By: _____
Brant C. Will
Deputy City Attorney

BCW:jdf
11/18/16
Or.Dept.: Debt Mgmt.
Doc. No.: 1395133

I hereby certify that the foregoing Resolution was passed by the City Council of The City of San Diego, at this meeting of _____, 2016.

ELIZABETH S. MALAND
City Clerk

By: _____
Deputy City Clerk

Approved: _____
(date)

KEVIN L. FAULCONER, Mayor

Vetoed: _____
(date)

KEVIN L. FAULCONER, Mayor

DOCKET SUPPORTING INFORMATION
CITY OF SAN DIEGO
EQUAL OPPORTUNITY CONTRACTING PROGRAM EVALUATION

DATE:
November 18, 2016

SUBJECT: Authorization for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes Program

GENERAL CONTRACT INFORMATION

| | |
|-------------------------|---|
| Recommended Consultant: | Montague DeRose and Associates, LLC (Not Certified, M Cauc.) |
| Amount of this Action: | NTE \$50,000 for services and NTE \$5,000 for expenses |
| Recommended Consultant: | Hawkins Delafield & Wood LLP (Not Certified, M Cauc.) |
| Amount of this Action: | \$95,000 + NTE \$5,000 for expenses |
| Recommended Consultant: | U.S. Bank National Association (Not Certified, M Cauc.) |
| Amount of this Action: | NTE \$7,000 |
| Recommended Consultant: | Merrill Lynch, Pierce, Fenner & Smith Inc. (Not Certified, M Cauc.) |
| Amount of this Action: | TBD on actual notes sold |
| Recommended Consultant: | RBC Capital Markets (Not Certified, M Cauc.) |
| Amount of this Action: | TBD on actual notes sold |
| Recommended Consultant: | Citigroup Global Markets, Inc. (Not Certified, M Cauc.) |
| Amount of this Action: | TBD on actual notes sold |
| Recommended Consultant: | Bank of the West (Not Certified, M Cauc) |
| Amount of this Action: | TBD on actual notes sold |
| Recommended Consultant: | Bank of America, N.A (Not Certified, M Cauc) |
| Amount of this Action: | TBD on actual notes sold |
| Funding Source: | Commercial Paper Proceeds (Subordinated Water Revenue Commercial Paper Notes) |
| Goal: | N/A |

Montague DeRose and Associates, LLC

SUBCONSULTANT PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Montague DeRose and Associates, LLC submitted a Work Force Report for their Contra Costa and Los Angeles County employees dated October 12, 2016 indicating 9 and 8 employees in their Administrative Work Forces.

The Work Force Reports have fewer than 15 employees and therefore, are exempt from the employment category goals.

This agreement is subject to the City's Equal Opportunity Outreach Program (San Diego Ordinance No.18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Hawkins Delafield & Wood LLP

SUBCONSULTANT PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Hawkins Delafield & Wood LLP submitted a Work Force Report for their New York County employees dated August 22, 2016 indicating 123 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

Latino and Filipino in Professional
African American, Asian and Filipino in Administrative Support

This agreement is subject to the City's Equal Opportunity Outreach Program (San Diego Ordinance No.18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

U.S. Bank National Association

SUBCONSULTANT PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

U.S. Bank National Association submitted a Work Force Report for their Los Angeles County employees dated September 2, 2016 indicating 207 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

Latino and Filipino in Mgmt and Financial
Latino, Filipino and Female in Professional
Latino, Filipino and Female in Sales

African American, Latino and Filipino in Administrative Support

This agreement is subject to the City's Equal Opportunity Outreach Program (San Diego Ordinance No.18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Merrill Lynch, Pierce, Fenner & Smith Inc.

SUBCONSULTANT PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Merrill Lynch, Pierce, Fenner & Smith Inc. submitted a Work Force Report for their Los Angeles County employees dated September 30, 2016 indicating 24 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

Latino, Asian, Filipino and Female in Management and Financial
Latino, Filipino and Female in Professional
Latino, Filipino and Female in Sales

Based on the under representations in the workforce noted above, staff has requested an Equal Employment Opportunity (EEO) Plan which describes the firm's EEO policies and practices to be submitted no later than November 10, 2016 for approval. Once approved, staff will continue to monitor the firm's efforts to implement their EEO Plan.

This agreement is subject to the City's Equal Opportunity Outreach Program (San Diego Ordinance No.18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

RBC Capital Markets

SUBCONSULTANT PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

RBC Capital Markets submitted a Work Force Report for their Los Angeles County employees dated October 27, 2016 indicating 9 employees in their Administrative Work Force.

The Work Force Report has fewer than 15 employees and therefore, is exempt from the employment category goals.

This agreement is subject to the City's Equal Opportunity Outreach Program (San Diego Ordinance No.18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Citigroup Global Markets, Inc.

SUBCONSULTANT PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Citigroup Global Markets, Inc. submitted a Work Force Report for their Los Angeles County employees dated November 3, 2016 indicating 40 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

Latino, Filipino and Female in Management and Financial
African-American, Asian, Filipino, and Female in Professional
Latino, Filipino and Female in Sales

Based on the under representations in the workforce noted above, staff has an approved Equal Employment Opportunity (EEO) Plan on file as of March 10, 2015. Staff will continue to monitor the firm's efforts to implement their EEO plan.

This agreement is subject to the City's Equal Opportunity Outreach Program (San Diego Ordinance No.18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Bank of the West

SUBCONSULTANT PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Bank of the West submitted a Work Force Report for their San Francisco County employees dated November 3, 2016 indicating 811 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

Latino, Filipino and Female in Management and Financial
Filipino and Female in Professional
Asian and Filipino in A&E, Science and Computer
African-American, Asian, Filipino and Female in Sales
Latino and Filipino in Administrative Support

Based on the under representations in the workforce noted above, staff has requested an Equal Employment Opportunity (EEO) Plan which describes the firm's EEO policies and practices to be submitted no later than November 28, 2016 for approval. Once approved, staff will continue to monitor the firm's efforts to implement their EEO plan.

This agreement is subject to the City's Equal Opportunity Outreach Program (San Diego Ordinance No.18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Bank of America, N.A.

SUBCONSULTANT PARTICIPATION

There is no subcontractor participation associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity: Required

Bank of America, N.A. submitted a Work Force Report for their Los Angeles County employees dated September 30, 2016 indicating 311 employees in their Administrative Work Force.

The Administrative Work Force indicates under representations in the following categories:

African-American, Latino and Filipino in Management and Financial
African-American, Latino, Filipino and Female in Professional
Filipino in Sales
African-American, Latino and Filipino in Administrative Support

This agreement is subject to the City's Equal Opportunity Outreach Program (San Diego Ordinance No.18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

ADDITIONAL COMMENTS

Authorize the issuance of Subordinated Water Revenue Commercial Paper Notes from time to time in an amount not to exceed \$250 million to provide financing for capital improvements to the Water System.

TC

**2017 COMMERCIAL PAPER SUPPLEMENT
TO AMENDED AND RESTATED
MASTER INSTALLMENT PURCHASE AGREEMENT**

by and between

THE CITY OF SAN DIEGO

and

**SAN DIEGO FACILITIES AND EQUIPMENT
LEASING CORPORATION**

Dated as of January 1, 2017

relating to

\$250,000,000

**Public Facilities Financing Authority of the City of San Diego
Subordinated Water Revenue Commercial Paper Notes
(Payable Solely from Subordinated Installment Payments Secured
by Net System Revenues of the Water Utility Fund)**

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**2017 COMMERCIAL PAPER SUPPLEMENT
TO AMENDED AND RESTATED
MASTER INSTALLMENT PURCHASE AGREEMENT**

THIS 2017 Commercial Paper Supplement TO AMENDED AND RESTATED MASTER INSTALLMENT PURCHASE AGREEMENT (the “**2017 Commercial Paper Supplement**”), dated as of January 1, 2017, is by and between THE CITY OF SAN DIEGO, a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California (the “**City**”), and the SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION, a nonprofit public benefit corporation organized and existing under and by virtue of the laws of the State of California (the “**Corporation**”).

WITNESSETH:

WHEREAS, the City and the Corporation have heretofore entered into an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009B Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2009, a 2010A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2010, a 2012A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2012, and a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016 (collectively, the “**Agreement**”), each by and between the City and the Corporation, pursuant to which the Corporation has agreed to sell certain improvements and additions (comprised of various components, each, a “**Component**”) to the water system of the City (the “**Water System**”) and the City has agreed from time to time to purchase certain Components as specified in certain supplements to the Agreement; and

WHEREAS, the City has determined that it is in its best interests and the best interests of its residents to finance the Components identified in Exhibit A to this 2017 Commercial Paper Supplement (the “**Commercial Paper Notes Components**”), and to pay for the Commercial Paper Notes Components by making Commercial Paper Notes Subordinated Installment Payments (herein defined), including Subordinated Credit Provider Reimbursement Obligations, pursuant to this 2017 Commercial Paper Supplement, all in the manner described herein, and the Public Facilities Financing Authority of the City of San Diego, a California joint exercise of powers entity (the “**Authority**”), is willing to assist the City in effecting such financing; and

WHEREAS, the Commercial Paper Notes Subordinated Installment Payments specified in this 2017 Commercial Paper Supplement will be assigned by the Corporation to the Authority and serve as the security for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “**Commercial Paper Notes**”), the proceeds of which will be used to finance the Commercial Paper Notes Components and to pay the costs of issuance of the Commercial Paper Notes; and

WHEREAS, the Commercial Paper Notes are to be issued from time to time under and secured by the Indenture, dated as of January 1, 2009, as amended and supplemented by the First Supplemental Indenture, dated as of June 1, 2009, by the Second Supplemental Indenture, dated as of June 1, 2010, by the Third Supplemental Indenture, dated as of April 1, 2012, by the Fourth Supplemental Indenture, dated as of June 1, 2016 and by the Fifth Supplemental Indenture, dated as of January 1, 2017 (collectively, the “**Indenture**”), each by and between the Authority and U.S. Bank National Association, as successor trustee (the “**Trustee**”); and

WHEREAS, the City and the Corporation now wish to describe the underlying purchase and sale of the Commercial Paper Notes Components that will be the subject of the Commercial Paper Notes Subordinated Installment Payments by execution and delivery of this 2017 Commercial Paper Supplement; and

WHEREAS, this 2017 Commercial Paper Supplement is an Issuing Instrument, as defined in the Agreement, and, when executed and delivered, shall constitute a Supplement to the Agreement and be included as part thereof; and

NOW THEREFORE, the parties hereto have agreed as follows:

ARTICLE 1

DEFINITIONS

Section 1.01. Definitions. Capitalized terms used in this 2017 Commercial Paper Supplement but not defined herein have the meanings given those terms in the Agreement and, if any such terms are not defined in the Agreement, then such terms have the meanings given those terms in the Indenture. As used in this 2017 Commercial Paper Supplement, the following additional terms have the following meanings:

Commercial Paper Notes Components

The term “Commercial Paper Notes Components” means the Components of the Project specified in Exhibit A attached hereto and by this reference made a part hereof, as it may be modified from time to time in accordance with Section 3.02 hereof, for which the City will be making Commercial Paper Notes Subordinated Installment Payments.

Commercial Paper Notes Installment Payment Date

The term “Commercial Paper Notes Installment Payment Date” means (i) any date determined by the City to make a Commercial Paper Notes Subordinated Installment Payment, (ii) the business day prior to each Interest Payment Date or Principal Payment Date for the Commercial Paper Notes, and (iii) each date on which any Subordinated Credit Provider Reimbursement Obligation is due or transfers pursuant to Section 3.05 hereof are to be made.

Commercial Paper Notes Subordinated Installment Payments

The term “Commercial Paper Notes Subordinated Installment Payments” means the Installment Payments specified in Section 4.01 hereof for payment of the Purchase Price of the Commercial Paper Notes Components in accordance with the terms hereof.

Interest Portion

The term “Interest Portion” means the interest portion of Commercial Paper Notes Subordinated Installment Payments specified in Section 4.01 hereof.

Parity Installment Payments

The term “Parity Installment Payments” means any Installment Payments payable from Net System Revenues that are secured by a first priority lien on Net System Revenues and are senior in priority to payment of Subordinated Installment Payments.

Principal Portion

The term “Principal Portion” means the principal portion of Commercial Paper Notes Subordinated Installment Payments specified in Section 4.01 hereof.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES; CERTAIN AGREEMENTS

Section 2.01. City Representations and Warranties. The City hereby represents and warrants that each of the following is true and correct:

(a) The City is a municipal corporation organized and existing under the Charter, which was duly adopted pursuant to the provisions of the Constitution of the State of California.

(b) The City has full legal right, power, and authority to enter into this 2017 Commercial Paper Supplement and perform its obligations hereunder, to carry out and consummate all transactions contemplated by this 2017 Commercial Paper Supplement, and the City has complied with the provisions of the Law in all matters relating to such transactions.

(c) By proper action, the City has duly authorized the execution, delivery, and performance of this 2017 Commercial Paper Supplement.

(d) The execution and delivery of this 2017 Commercial Paper Supplement and the consummation of the transactions herein contemplated do not and will not (i) violate any provision of any material law or any order of any court or other agency of government; (ii) be in conflict with, result in a material breach of, or constitute a default (with due notice or the passage of time or both) under any provision of any indenture, material agreement, or other instrument to which the City is now a party or by which it or any of its material properties or assets is bound; or (iii) result in the creation or imposition of any prohibited lien, charge, or encumbrance of any nature whatsoever upon any of the properties or assets of the City.

(e) The City has determined that it is necessary and proper for City uses and purposes within the terms of the Law that the City acquire the Commercial Paper Notes Components in the manner provided for in this 2017 Commercial Paper Supplement, in order to continue to provide essential services and facilities to the persons residing in the City.

(f) The City will take no action to cause, directly or indirectly, the interest on the Commercial Paper Notes to be includable in the gross income of the Owners (as defined in the Indenture) of the Commercial Paper Notes for federal income tax purposes.

Section 2.02. Corporation Representations and Warranties. The Corporation hereby represents and warrants to the City that each of the following is true and correct:

(a) The Corporation is duly organized and existing under the laws of the State of California.

(b) The Corporation has full legal right, power, and authority to enter into this 2017 Commercial Paper Supplement and to carry out and consummate all transactions contemplated by this 2017 Commercial Paper Supplement.

(c) By proper action, the Corporation has duly authorized the execution, delivery, and due performance of this 2017 Commercial Paper Supplement.

(d) The execution and delivery of this 2017 Commercial Paper Supplement and the consummation of the transactions herein contemplated do not and will not (i) violate any provision of any material law or any order of any court or other agency of government; (ii) be in conflict with, result in a material breach of, or constitute a default (with due notice or the passage of time or both) under any provision of any indenture, material agreement, or other instrument to which the Corporation is now a party or by which it or any of its material properties or assets is bound; or (iii) result in the creation or imposition of any prohibited lien, charge, or encumbrance of any nature whatsoever upon any of the properties or assets of the Corporation.

ARTICLE 3

COMMERCIAL PAPER NOTES PROCEEDS; PLEDGE OF CERTAIN AMOUNTS; SALE OF COMMERCIAL PAPER NOTES COMPONENTS

Section 3.01. Corporation's Obligation to Pay Commercial Paper Notes Proceeds. In consideration of the agreement by the City to make Commercial Paper Notes Subordinated Installment Payments, the Corporation hereby agrees to cause the Authority, as assignee of the Corporation's rights and obligations hereunder, to pay to the City the principal amount of commercial paper originally issued from time to time.

Section 3.02. Proceeds of the Commercial Paper Notes. The City hereby directs the Authority to deliver the proceeds of the Commercial Paper Notes allocated to pay costs of issuance incurred in connection with Commercial Paper Notes to the Trustee in accordance with Section 17.15 of the Indenture and the proceeds of the Commercial Paper Notes allocated to pay for Project Costs to either the City for reimbursement of previously incurred expenditures for the

Water System or to the Treasurer of the City for deposit into the Acquisition Account as directed by the City in accordance with Section 17.16 of the Indenture.

Section 3.03. Pledge of Amounts in the Acquisition Account. The City hereby irrevocably pledges all Revenues and amounts, if any, on deposit in the Commercial Paper Notes Acquisition Account established pursuant to Section 17.16 of the Indenture and held by the Treasurer, for the benefit of the Owners, subject to the provisions of the Indenture.

Section 3.04. Sale and Purchase of Commercial Paper Notes Components. In consideration of the agreement by the City to make Commercial Paper Notes Subordinated Installment Payments, the Corporation hereby sells, transfers, and assigns the Commercial Paper Notes Components to the City and the City hereby agrees to purchase and accept the Commercial Paper Notes Components. The Commercial Paper Notes Components shall be revised from time to time as the Commercial Paper Notes are repaid and additional Components of the Project are purchased with proceeds of Commercial Paper Notes.

Section 3.05. Transfer of Money from the Water Utility Fund to a Reimbursement Account. In the event that a Subordinated Credit Provider has refused payment for a series of Commercial Paper Notes as provided for in the related Subordinated Credit Support Instrument and the amount in the related Credit Enhanced Note Account and Reimbursement Account established for such series of Commercial Paper Notes is not sufficient to pay the principal of and accrued interest on such Commercial Paper Notes on such Commercial Paper Notes Interest Payment Date as provided in the Issuing and Paying Agency Agreement and the Indenture, the City shall pay the amount of such insufficiency, solely from Net System Revenues, by transferring moneys from the Water Utility Fund to the related Reimbursement Account in an aggregate amount, together with other moneys held in the related Credit Enhanced Note Account and such Reimbursement Account, sufficient for the payment of principal of and accrued interest on such Commercial Paper Notes due on such Commercial Paper Notes Installment Payment Date.

Section 3.06. City Acceptance of Authority Duties relating to Commercial Paper Notes. The City accepts the duties of the Authority set forth in the Fifth Supplement relating to the Commercial Paper Notes as provided for therein. Notwithstanding the foregoing, the Commercial Paper Notes shall continue to be special limited obligations of the Authority and any other payment or indemnification obligations of the Authority under the Indenture, the Dealer Agreement and the Issuing and Paying Agency Agreement will remain obligations of the Authority.

ARTICLE 4

COMMERCIAL PAPER NOTES SUBORDINATED INSTALLMENT PAYMENTS AND RELATED SUBORDINATED CREDIT PROVIDER REIMBURSEMENT OBLIGATIONS

Section 4.01. Commercial Paper Notes Subordinated Installment Payments. In consideration of the payment by the Authority, on behalf of the Corporation, of the proceeds of the Commercial Paper Notes and the sale of the Commercial Paper Notes Components by the

Corporation to the City pursuant to Section 3.04 hereof, the City hereby agrees to pay the Purchase Price of the Commercial Paper Notes Components by making Commercial Paper Notes Subordinated Installment Payments, solely from Net System Revenues, as provided in the Agreement, on each Commercial Paper Notes Installment Payment Date in amounts equal to the principal of and interest accrued on the Commercial Paper Notes and any related Subordinated Credit Provider Reimbursement Obligations as and when due.

Section 4.02. Subordinated Obligations. The Commercial Paper Notes Subordinated Installment Payments and any related Subordinated Credit Provider Reimbursement Obligations as and when due shall be Subordinated Obligations under the Agreement and the payment of the Commercial Paper Notes Subordinated Installment Payments and the Subordinated Credit Provider Reimbursement Obligations shall be on parity in right of payment to the Subordinated Installment Payments under the Agreement. No Owner of the Obligations shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Installment Payment Obligations.

ARTICLE 5

ADDITIONAL COVENANTS

Section 5.01. Additional Covenants Relating to Commercial Paper Notes.

(a) The City shall not directly or indirectly use or permit the use of any proceeds of the Commercial Paper Notes or any other funds of the City or of the Commercial Paper Notes Components financed with Commercial Paper Notes or take or omit to take any action that would cause the Commercial Paper Notes to be “private activity bonds” within the meaning of Section 141 of the Code, or obligations that are “federally guaranteed” within the meaning of Section 149(b) of the Code.

(b) The City hereby covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Commercial Paper Notes under Section 103 of the Code. The City shall not directly or indirectly use or permit the use of any proceeds of the Commercial Paper Notes or any other funds of the City, or take or omit to take any action, that would cause the Commercial Paper Notes to be “arbitrage bonds” within the meaning of Section 148(a) of the Code. To that end, the City shall comply with all requirements of Section 148 of the Code to the extent applicable to the Commercial Paper Notes. If, at any time, the City is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, then the City shall so instruct the Trustee in writing, and shall cause the Trustee to take such action as may be necessary in accordance with such instructions.

(c) Without limiting the generality of the foregoing, the City hereby agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any Treasury Regulations promulgated thereunder as may be applicable to the Commercial Paper Notes from time to time. This covenant shall survive payment in full or defeasance of the Commercial Paper Notes. The City

hereby specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under this Section the rebate requirement, as described in the Tax Certificate, and to otherwise comply with the provisions of the Tax Certificate executed by the City and the Authority in connection with the execution and delivery of the Commercial Paper Notes.

(d) Notwithstanding any provision of this Section, if the City provides to the Trustee and the Issuing and Paying Agent an opinion of Bond Counsel to the effect that any action required under this Section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Commercial Paper Notes pursuant to Section 103 of the Code, then the City may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent.

IN WITNESS WHEREOF, this 2017 Commercial Paper Supplement has been executed by the City and the Corporation as of the year and date first above written.

THE CITY OF SAN DIEGO

By: _____
Mary Lewis
Chief Financial Officer

ATTEST:

By: _____
Elizabeth S. Maland
City Clerk

APPROVED AS TO FORM AND LEGALITY:

[JAN I. GOLDSMITH], City Attorney

By: _____
Brant C. Will
Deputy City Attorney

SAN DIEGO FACILITIES AND
EQUIPMENT LEASING CORPORATION

By: _____
Kevin L. Faulconer
President

EXHIBIT A
COMMERCIAL PAPER NOTES COMPONENTS

[See attached schedules]

ASSIGNMENT AGREEMENT

by and between

**SAN DIEGO FACILITIES AND EQUIPMENT
LEASING CORPORATION**

and

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO**

Dated as of January 1, 2017

relating to

\$250,000,000

**Public Facilities Financing Authority of the City of San Diego
Subordinated Water Revenue Commercial Paper Notes
(Payable Solely from Subordinated Installment Payments
Secured by Net System Revenues of the Water Utility Fund)**

ASSIGNMENT AGREEMENT

THIS ASSIGNMENT AGREEMENT (this “**Assignment Agreement**”), dated as of [Dated Date], is by and between the SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION, a nonprofit public benefit corporation organized and existing under and by virtue of the laws of the State of California (the “**Corporation**”), and the PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, a joint exercise of powers entity existing under and virtue of the laws of the State of California (the “**Authority**”).

WITNESSETH:

WHEREAS, The City of San Diego, California (the “**City**”), desires to finance the Components identified in Exhibit A to the 2017 Commercial Paper Supplement (as defined below) and as modified in accordance with the provisions thereof (the “**Project**”); and

WHEREAS, in order to effect such acquisition, construction, installation, and improvement, the Corporation will sell components of the Project to the City pursuant to an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (as amended and supplemented from time to time, the “**Installment Purchase Agreement**”), by and between the City and the Corporation; and

WHEREAS, the Authority’s Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “**Commercial Paper Notes**”), issued in the aggregate principal amount of \$250,000,000, will be secured by the 2017 Installment Payments (as defined in the 2017 Commercial Paper Supplement (defined below) to be made by the City pursuant to the Installment Purchase Agreement, including as supplemented by the 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017 (the “**2017 Commercial Paper Supplement**”), will be Subordinated Obligations as defined in the Installment Purchase Agreement, and will be issued under and secured by an Indenture, dated as of January 1, 2009 (the “**Original Indenture**”), as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009 (the “**First Supplement**”), a Second Supplemental Indenture, dated as of June 1, 2010 (the “**Second Supplement**”), a Third Supplemental Indenture, dated as of April 1, 2012 (the “**Third Supplement**”), the Fourth Supplemental Indenture, dated as of June 1, 2016 (the “**Fourth Supplement**”) and the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “**Fifth Supplement**” and, together with the Original Indenture, the First Supplement, the Second Supplement, the Third Supplement and the Fourth Supplement, the “**Indenture**”), each by and between the Authority and U.S. Bank National Association, a national banking association duly organized under the laws of the United States of America, as trustee (the “**Trustee**”); and

WHEREAS, the Corporation desires to assign to the Authority without recourse all of its rights under the 2017 Commercial Paper Supplement, including, without limitation, its rights to receive Commercial Paper Notes Subordinated Installment Payments payable by the City to the Corporation under and pursuant to the provisions of the 2017 Commercial Paper Supplement; and

WHEREAS, in consideration of such assignment and the execution and delivery of the Fifth Supplement and the Issuing and Paying Agency Agreement dated as of January 1, 2017 by and between the City and U.S. Bank National Association, as the Issuing and Paying Agent, the Issuing and Paying Agent has agreed to authenticate and deliver the Commercial Paper Notes; and

WHEREAS, all acts, conditions, and things required by law to exist, to have happened, and to have been performed precedent to and in connection with the execution and entering into of this Assignment Agreement do exist, have happened, and have been performed in regular and due time, form, and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Assignment Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants contained herein and for other valuable consideration, the parties hereto do hereby agree as follows:

Section 1. Definition of Capitalized Terms. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture.

Section 2. Assignment. The Corporation, for good and valuable consideration, the receipt of which is hereby acknowledged, does hereby unconditionally grant, sell, assign, and transfer to the Authority, irrevocably and absolutely, without recourse, for the benefit of the Owners of the Commercial Paper Notes, all of its right, title, and interest in and to the 2017 Commercial Paper Supplement, including, without limitation, its right to receive the Commercial Paper Notes Subordinated Installment Payments to be paid by the City under and pursuant to the 2017 Commercial Paper Supplement. Upon executing this Assignment Agreement, the Corporation shall have no right, title, or interest in and to the 2017 Commercial Paper Supplement, including, without limitation, the Commercial Paper Notes Subordinated Installment Payments.

Section 3. Acceptance. The Authority hereby accepts the foregoing assignment for the benefit of the Owners of the Commercial Paper Notes, subject to the terms and provisions of the Indenture, and all Commercial Paper Notes Subordinated Installment Payments shall be applied and the rights so assigned shall be exercised by the Authority as provided in the 2017 Commercial Paper Supplement and the Indenture.

Section 4. Conditions. Excepting only the grant, sale, assignment, and transfer to the Authority of the Corporation's right, title, and interest in and to the 2017 Commercial Paper Supplement pursuant to Section 2 hereof, this Assignment Agreement shall impose no obligations upon the Authority beyond those expressly provided in the 2017 Commercial Paper Supplement and the Indenture.

Section 5. Further Assurances. The Corporation shall make, execute, and deliver any and all such further resolutions, instruments, and assurances as may be reasonably desirable or proper to carry out the intention or to facilitate the performance of this Assignment Agreement, and for the better assuring and confirming to the Authority, for the benefit of the Owners of the Commercial Paper Notes, the right, title, and interest intended to be granted, sold, assigned, and transferred pursuant hereto.

Section 6. Governing Law. This Assignment Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 7. Execution in Counterparts. This Assignment Agreement may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Assignment Agreement has been executed by the Corporation and the Authority as of the day and year first written above.

SAN DIEGO FACILITIES AND
EQUIPMENT LEASING CORPORATION

By: _____
Kevin L. Faulconer
President

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

By: _____
[Sherri S. Lightner]
Chair

ATTEST:

By: _____
Elizabeth S. Maland
Secretary

APPROVED AS TO FORM:

GENERAL COUNSEL TO THE AUTHORITY

By _____
Brant C. Will
Deputy General Counsel

FIFTH SUPPLEMENTAL INDENTURE

dated as of January 1, 2017

Supplementing and Amending that certain

INDENTURE

dated as of January 1, 2009, as supplemented and amended,

by and between

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO**

and

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

relating to

\$250,000,000

**Public Facilities Financing Authority of the City of San Diego
Subordinated Water Revenue Commercial Paper Notes
(Payable Solely from Subordinated Installment Payments
Secured by Net System Revenues of the Water Utility Fund)**

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FIFTH SUPPLEMENTAL INDENTURE

THIS FIFTH SUPPLEMENTAL INDENTURE (this “**Fifth Supplement**”), is made and entered into as of January 1, 2017, by and between the PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the “**Authority**”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized under the laws of the United States of America, as successor trustee (the “**Trustee**”), under that certain Indenture, dated as of January 1, 2009 (the “**Original Indenture**”), as supplemented and amended by that certain First Supplemental Indenture, dated as of June 1, 2009 (the “**First Supplement**”), that certain Second Supplemental Indenture, dated as of June 1, 2010 (the “**Second Supplement**”), that certain Third Supplemental Indenture, dated as of April 1, 2012 (the “**Third Supplement**”), and that certain Fourth Supplemental Indenture, dated as of June 1, 2016 (the “**Fourth Supplement**”), each by and between the Authority and the Trustee (the Original Indenture, as supplemented and amended by the First Supplement, the Second Supplement, the Third Supplement, the Fourth Supplement and by this Fifth Supplement, the “**Indenture**”);

WITNESSETH:

WHEREAS, the Original Indenture provides that the Authority may issue Additional Bonds (as defined in the Original Indenture) in order to assist the City of San Diego, a municipal corporation and a charter city duly organized and existing under its Charter and the Constitution of the State of California (the “**City**”), in the financing of the acquisition, construction, installation and improvements to the Water System (as defined in the Original Indenture); and

WHEREAS, in order to effect the acquisition, construction, installation and improvements to the water system of the City (the “**Water System**”), the San Diego Facilities and Equipment Leasing Corporation (the “**Corporation**”) sold components of the City’s water system improvement project to the City pursuant to an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009B Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2009, a 2010A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2010, a 2012A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2012, and a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016 (collectively and as further supplemented from time to time, the “**Agreement**”), each by and between the City and the Corporation, pursuant to which the Corporation has agreed to sell certain improvements and additions (comprised of various components, each, a “**Component**”) to the Water System and the City has agreed from time to time to purchase certain Components as specified in certain supplements to the Agreement; and

WHEREAS, the City has now requested the assistance of the Authority in the financing of additional components of the acquisition, construction, installation and improvements to the Water System, including the reimbursement of the City for eligible expenditures incurred to pay

for such additional components of the acquisition, construction, installation and improvements to the Water System (the “**Commercial Paper Notes Components**”); and

WHEREAS, the Authority has agreed to provide assistance to the City by financing the Commercial Paper Notes Components; and

WHEREAS, to provide funds to finance additional capital improvements to the Water System, the Authority desires to issue its Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “**Commercial Paper Notes**”) from time to time in an aggregate principal amount not exceeding \$250,000,000; and

WHEREAS, the City has requested that the Authority and the Trustee amend the Original Indenture to allow for the issuance of the Commercial Paper Notes from time to time, and the Authority and the Trustee are willing to make such amendments; and

WHEREAS, the Authority has determined, in accordance with Section 9.01(b) of the Original Indenture, that the terms of this Fifth Supplement including, without limitation, terms to provide for the issuance of the Commercial Paper Notes, are not inconsistent with the Original Indenture as heretofore amended and supplemented by the First Supplement, the Second Supplement, the Third Supplement and the Fourth Supplement and will not adversely affect the interests of the Owners; and

WHEREAS, the Commercial Paper Notes will be secured by the Commercial Paper Notes Subordinated Installment Payments (as defined herein) to be made by the City pursuant to that certain 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017 (the “**2017 Commercial Paper Supplement**”), by and between the City and the Corporation, which Commercial Paper Notes Subordinated Installment Payments constitute Subordinated Obligations (as defined in the Agreement); and

WHEREAS, in order to establish and declare the terms and conditions upon which the Commercial Paper Notes are to be issued and secured, to provide for the payment of the principal thereof and interest thereon, and to provide for the herein described amendments, the Authority and the Trustee desire to enter into this Fifth Supplement; and

WHEREAS, all acts, conditions, and things required by law to exist, to have happened, and to have been performed precedent to and in connection with the execution and delivery of this Fifth Supplement do exist, have happened, and have been performed in a regular and due time, form, and manner as required by law and the Original Indenture, as heretofore amended and supplemented, the parties hereto are now duly authorized to execute and enter into this Fifth Supplement.

NOW, THEREFORE, in consideration of the covenants and provisions herein set forth and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

Section 1. Definitions. Unless the context clearly otherwise requires, all capitalized terms used in this Fifth Supplement shall have the meanings assigned to such terms in the

Recitals hereof or in the Original Indenture, the First Supplement, the Second Supplement, the Third Supplement or the Fourth Supplement, as applicable.

(A) The definitions of the following terms in the Original Indenture, the First Supplement, the Second Supplement, the Third Supplement and the Fourth Supplement, as applicable, shall be modified to read as follows:

Agreement

The term “Agreement” means the Master Installment Purchase Agreement, dated as of August 1, 2002, as supplemented and amended by a 2002 Supplement to Master Installment Purchase Agreement, dated as of August 1, 2002, a 2002 Supplement to Master Installment Purchase Agreement, dated as of October 1, 2002, an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009B Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2009, a 2010A Supplement to Amended and Restated Master Installment Sale Agreement, dated as of June 1, 2010, a 2012A Supplement to Amended and Restated Master Installment Sale Agreement, dated as of April 1, 2012, a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016, each by and between the City and the Corporation, and the 2017 Commercial Paper Supplement, and as such Agreement may from time to time be further amended or supplemented by all Supplements executed pursuant to the provisions thereof.

Subordinated Bonds

The term “Subordinated Bonds” means the 2012A Bonds, the 2016 Bonds, the Commercial Paper Notes and any other Bonds secured by a pledge of Subordinated Revenues on a parity with such Bonds.

(B) The following terms shall have the following meanings, which terms are hereby added to Section 1.01 of the Original Indenture.

Authorized City Representative

The term “Authorized City Representative” means the Chief Financial Officer of the City, the Director of Debt Management, the City Comptroller or such other officer or employee of the City or other person who has been designated in writing as such representative by the Chief Financial Officer to act on behalf of the City under or with respect to this Indenture and all other agreements related thereto.

Authorized Representative

The term “Authorized Representative” means the Chair, the Vice Chair, or the Secretary of the Authority, or any other officer of the Authority or any Authorized City Representative.

Book-Entry Commercial Paper Notes

The term “Book-Entry Commercial Paper Notes” means Commercial Paper Notes evidenced by a Master Note under a book-entry system described in Section 17.6 hereof.

Commercial Paper Notes

The term “Commercial Paper Notes” means the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by the Net System Revenues of the Water Utility Fund) issued from time to time under this Fifth Supplement.

Commercial Paper Notes Acquisition Account

The term “Commercial Paper Notes Acquisition Account” means the account by that name established under Section 17.14 of this Fifth Supplement for the payment of Project Costs with respect to the Commercial Paper Notes.

Commercial Paper Notes Business Day

The term “Commercial Paper Notes Business Day,” with respect to any Commercial Paper Note, shall have the meaning given to such term in the related Subordinated Credit Support Instrument.

Commercial Paper Notes Closing Date

The term “Commercial Paper Notes Closing Date” means the first date on which an issue of Commercial Paper Notes is executed and delivered hereunder by the Authority.

Commercial Paper Notes Components

The term “Commercial Paper Notes Components” means the Components of the Project specified in in Exhibit A to the 2017 Commercial Paper Supplement, for which the City will be making Commercial Paper Notes Subordinated Installment Payments.

Commercial Paper Notes Costs of Issuance Account

The term “Commercial Paper Notes Costs of Issuance Account” means the account by that name established under Section 17.13 of this Fifth Supplement for the payment of Costs of Issuance with respect to the Commercial Paper Notes.

Commercial Paper Notes Subordinated Installment Payments

The term “Commercial Paper Notes Subordinated Installment Payments” means those Installment Payments scheduled to be paid by the City under the 2017 Commercial Paper Supplement.

Commercial Paper Notes Tax Certificate

The term “Commercial Paper Notes Tax Certificate” means each Tax Certificate of the Authority and the City executed in connection with the issuance of Commercial Paper Notes, including any amendments or supplements thereto.

Dealer

The term “Dealer” means each dealer appointed pursuant to Section 17.10 hereof or any additional dealer or any successor entity or entities thereto which may be appointed as a Dealer hereunder by the Authority.

Dealer Agreement

The term “Dealer Agreement” means each dealer agreement entered into with a Dealer by the Authority with respect to the Commercial Paper Notes.

Draw; Drawn; Drawable

The term “Draw” means any drawing by the Authority or Issuing and Paying Agent on a Subordinated Credit Support Instrument; “Drawn” means at any time any Draw theretofore made; and “Drawable” means at any time any Draw that thereafter may be made.

Fifth Supplement

The term “Fifth Supplement” means this Fifth Supplemental Indenture, dated as of January 1, 2017, by and between the Authority and the Trustee.

Holder or Noteholder

The term “Holder” or “Noteholder” or any similar term, when used with reference to a Commercial Paper Note, means any person who is in possession of any Commercial Paper Note drawn, issued or endorsed to such person or to the order of such person; provided, however, that “Holder” when used with reference to Commercial Paper Notes issued through a Securities Depository and evidenced by a Master Note, shall mean the registered owner of such Master Note as shown on the books of the Issuing and Paying Agent kept pursuant to Section 17.14 hereof.

Issuance Request

The term “Issuance Request” shall have the meaning set forth in Section 17.10 hereof.

Issuing and Paying Agency Agreement

The term “Issuing and Paying Agency Agreement” means the Issuing and Paying Agency Agreement, dated as of January 1, 2017, by and between the Authority and the Issuing and Paying Agent, as the same may be amended and supplemented from time to time, or any other issuing and paying agency agreement which the Authority determines to be in replacement thereof as may be entered into by the Authority from time to time with respect to Commercial Paper Notes.

Issuing and Paying Agent

The term “Issuing and Paying Agent” means U.S. Bank National Association, or any other institution, appointed by the Authority pursuant to Section 17.11 hereof to serve as Issuing and Paying Agent in accordance with the Issuing and Paying Agency Agreement, or any successor thereto pursuant to this Indenture and the Issuing and Paying Agency Agreement.

Master Note

The term “Master Note” means any Depository Trust Company form of Commercial Paper Master Note or comparable form by and between the Authority and the Issuing and Paying Agent evidencing the issuance of Commercial Paper Notes by the Authority from time to time.

Securities Depository

The term “Securities Depository” means The Depository Trust Company, or any other Holder of a Commercial Paper Note acting as a central securities depository for the Commercial Paper Notes or a portion of the Commercial Paper Notes, as authorized pursuant to Section 17.6 hereof, and its successors and assigns, or if any Securities Depository resigns from its function as depository of the Commercial Paper Notes, any other securities depository which agrees to follow the procedures required to be followed by the Securities Depository hereunder in connection with the Commercial Paper Notes or such portion of the Commercial Paper Notes, and which is selected by the Authority.

Subordinated Credit Provider

The term “Subordinated Credit Provider” means the provider or, collectively, providers of a Subordinated Credit Support Instrument for the Commercial Paper Notes.

Subordinated Credit Support Instrument

The term “Subordinated Credit Support Instrument” means, with respect to a series or subseries of the Commercial Paper Notes, a Subordinated Credit Support Instrument supporting Commercial Paper Notes.

Subordinated Credit Support Instrument Amount

The term “Subordinated Credit Support Instrument Amount” means at any time the maximum amount that may be Drawn upon under such Subordinated Credit Support Instrument.

Termination Date

The term “Termination Date” means the stated expiration date of a Subordinated Credit Support Instrument.

2017 Commercial Paper Supplement

The term “2017 Commercial Paper Supplement” means the 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017, by and between the City and the Corporation.

Section 2. Provisions Relating to the Commercial Paper Notes. The following new Article is hereby added to the Original Indenture:

ARTICLE XVII

COMMERCIAL PAPER NOTES

Section 17.1. Authorization of Issuance of Commercial Paper Notes. There is hereby authorized to be issued for the purposes set forth in Section 17.2 hereof an issue of Subordinated Bonds which shall be designated as “Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)” and which shall be entitled to the benefits, protection and security of this Indenture. The principal amount of the Commercial Paper Notes to be issued shall be determined by an Authorized City Representative, provided that the aggregate principal amount of all Commercial Paper Notes Outstanding at any time shall not exceed \$250,000,000. For purposes of the foregoing sentence, no Commercial Paper Note shall be deemed to be Outstanding on its date of maturity to the extent that the proceeds of one or more Commercial Paper Notes are available to be used to pay such Commercial Paper Note on such day. In addition, no Commercial Paper Note shall be deemed Outstanding hereunder if sufficient funds for the payment of such Commercial Paper Note are held by the issuing and paying agent for the payment of such Holders of such Commercial Paper Note on the maturity date thereof. The Commercial Paper Notes shall otherwise be subject to the terms, conditions and limitations provided or referred to herein and in the Issuing and Paying Agency Agreement. The Authority may create one or more series or subseries of the Commercial Paper Notes or designate and redesignate the Commercial Paper Notes in such a manner as may be determined by an Authorized Representative.

Section 17.2. Purposes of Commercial Paper Notes; Application of Commercial Paper Note Proceeds. At the direction of an Authorized City Representative, the Commercial Paper Notes shall be issued from time to time and the proceeds thereof may be used for any and each of the following purposes: (1) to pay or reimburse Project Costs, (2) to pay principal of and interest on Commercial Paper Notes at maturity or to reimburse the related Subordinated Credit Provider for Draws under the related Subordinated Credit Support Instrument, and (3) to pay costs incurred in connection with the issuance of Commercial Paper Notes.

Section 17.3. Terms Applicable to Commercial Paper Notes.

(a) Subject to the conditions and limitations contained herein, Commercial Paper Notes:

(i) shall be dated the date of their delivery from time to time hereunder,

(ii) shall mature on such dates and shall bear interest from its date of issuance at such rates as shall be determined by an Authorized City Representative at the date of issuance; provided that (A) the term of any Commercial Paper Note (1) shall not exceed 270 days from the date of its issue, and (2) shall not extend beyond a date which is two Commercial Paper Notes Business Days prior to the Termination Date of the Subordinated Credit Support Instrument relating to such Commercial Paper Notes, and (B) no Commercial Paper Note shall bear interest at a rate in excess of the lesser of eleven percent (11%) per annum or the maximum rate of interest permitted by law,

(iii) shall be issued in registered form either through the book-entry system of a Securities Depository or by itself, as determined by an Authorized City Representative,

(iv) shall be issued in the denomination of \$100,000 or any integral multiple of \$1,000 in excess thereof, as determined by an Authorized City Representative,

(v) shall be numbered consecutively from 1 upwards in order of their issuance, prefixed by the applicable designation to identify the appropriate series or subseries, as applicable, and may bear such other or alternative identification as an Authorized City Representative may deem appropriate, and

(vi) shall not be subject to redemption prior to maturity.

Commercial Paper Notes may be issued as interest-bearing obligations or at a discount and at such price as determined by an Authorized City Representative. The Authority shall not issue, or authorize the issuance of, Commercial Paper Notes to the extent that the aggregate principal amount of all Outstanding Commercial Paper Notes supported by such Subordinated Credit Support Instrument (after giving effect to such issuance) would exceed the amount that may be Drawn thereunder in respect of principal of Commercial Paper Notes or the sum of the aggregate amount of interest payable (including any portion thereof not yet accrued) in respect of such Commercial Paper Notes would exceed the amount that may be Drawn in respect of interest on such Subordinated Credit Support Instrument.

(b) Both principal of and interest on Commercial Paper Notes shall be payable in any coin or currency of the United States of America which shall then be legal tender for the payment of public and private debts. Except in the case of Book-Entry Commercial Paper Notes, principal of and interest on Commercial Paper Notes shall be payable upon presentation and surrender thereof at the principal office of the Issuing and Paying Agent at 100 Wall Street, 16th Floor, New York, NY 10005.

(c) Interest on Commercial Paper Notes shall be calculated on the basis of a 365/366-day year for the actual number of days elapsed to the dates on which such Commercial Paper Notes mature.

(d) The Commercial Paper Notes shall not be secured by any reserve fund, including the Common Subordinated Bonds Reserve Fund, or any Separate Subordinated Bonds Reserve Fund.

Section 17.4. Execution and Authentication of Commercial Paper Notes. Each Authorized Representative is hereby authorized and directed to execute by his or her manual or facsimile signature the Commercial Paper Notes in the name of the Authority and the corporate seal (or a facsimile thereof) shall be affixed, imprinted, engraved or otherwise reproduced thereon. In case any such Authorized Representative who shall have signed the Master Note issued through a Securities Depository or any Commercial Paper Notes not issued through a Securities Depository shall cease to be such Authorized Representative before the Master Note shall have been executed by the Issuing and Paying Agent or the Commercial Paper Notes shall have been authenticated by the Issuing and Paying Agent, the Commercial Paper Notes may nevertheless be issued as though the person who signed such notes had not ceased to be such Authorized Representative.

In the event the Commercial Paper Notes are issued through a Securities Depository, the Issuing and Paying Agent is hereby authorized (1) to execute by manual signature the Master Note and deliver the same to a Securities Depository or any agent designated by a Securities Depository upon the order of an Authorized Representative and (2) to proceed with the issuance of additional obligations under the Master Note in such amounts, at such times and pursuant to such terms as an Authorized Representative shall specify in accordance with the terms of the Issuing and Paying Agency Agreement and the applicable Dealer Agreement. Such directions may be given only by written instruction to the Issuing and Paying Agent, either in hard copy or via Electronic Means (as such term is defined in the Issuing and Paying Agency Agreement), in accordance with the terms of the Issuing and Paying Agency Agreement.

In the event the Commercial Paper Notes are not issued through a Securities Depository, the Issuing and Paying Agent is hereby authorized to authenticate by manual or facsimile signature the Commercial Paper Notes and deliver the same to the purchasers upon the order of an Authorized Representative, in such amounts and at such times as the Issuing and Paying Agent shall be directed by an Authorized Representative in accordance with the terms of the Issuing and Paying Agency Agreement and the applicable Dealer Agreement. Such directions may be given only by written instruction to the Issuing and Paying Agent, either in hard copy or via Electronic Means, in accordance with the terms of the Issuing and Paying Agency Agreement.

Section 17.5. Master Note. The ownership and transfer of any Master Note shall be registered on the books of the Issuing and Paying Agent, which shall be kept for that purpose at the principal office of the Issuing and Paying Agent. Any Master Note shall be transferable by the registered owner thereof in person or by his or her attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Issuing and Paying Agent duly executed by the registered owner or his or her duly authorized attorney. Upon the registration of transfer of a Master Note, the Issuing and Paying Agent shall issue in the name of the transferee a new Master Note, evidencing the Authority's obligations with respect to the same Book-Entry Commercial Paper Notes as the instrument surrendered.

Section 17.6. Book-Entry-Only System for Commercial Paper Notes.

(a) Notwithstanding any other provision of this Indenture, the Authority may employ a book-entry-only system of note registration with respect to all or any of the registered

Commercial Paper Notes, all as more fully set forth in subsections (b) and (c) of this Section 17.6. Any provisions of this Indenture inconsistent with book-entry-only Commercial Paper Notes shall not be applicable to such Book-Entry Commercial Paper Notes.

(b) The Depository Trust Company shall act as the initial Securities Depository for the Commercial Paper Notes. Each Authorized Representative is hereby authorized to execute and deliver on behalf of the Authority a Master Note, letter of representation or other agreements, documents or instruments in connection with the implementation or operation of such a book-entry-only system and may prescribe changes to the form of Commercial Paper Note to the extent necessary or convenient to make such Commercial Paper Note or Notes eligible for deposit under such a book-entry-only system. The provisions of any letter of representation or other agreement with a Securities Depository shall be deemed to be incorporated in this Indenture and, in accordance with subsection (a) of this Section 17.6, any provision of this Indenture inconsistent with such letter or agreement shall not apply to Commercial Paper Notes thereafter issued in book-entry-only form.

(c) The Authority and the Issuing and Paying Agent may treat as, and deem the nominee or Securities Depository to be, the absolute owner of each Commercial Paper Note issued as a book-entry-only Commercial Paper Note for the purpose of payment of the principal of and interest on such Commercial Paper Note, for other matters with respect to such Commercial Paper Note, for the purpose of registering transfers with respect to such Commercial Paper Note and for all other purposes whatsoever.

(d) With respect to all Book-Entry Commercial Paper Notes, neither the Authority nor the Issuing and Paying Agent shall have any responsibility or obligation to any Securities Depository participant or indirect participant, or any nominee of any thereof, any person claiming a beneficial ownership interest in book entry Commercial Paper Notes under or through the Securities Depository or any Securities Depository participant or indirect participant or any other person which is not shown on the books of the Issuing and Paying Agent as being the Holder of a Master Note, with respect to (1) sending transaction statements; (2) maintaining, supervising or reviewing, or the accuracy of, any records maintained by the Securities Depository or any Securities Depository participant or other nominees of such beneficial owners; (3) payment or the timeliness of payment by the Securities Depository to any Securities Depository participant, or by any Securities Depository participant or other nominees of beneficial owners to any beneficial owners, of any amount in respect of the principal of or interest on book-entry Commercial Paper Notes; (4) delivery or timely delivery by the Securities Depository to any Securities Depository participant, or by any Securities Depository participant or other nominees of beneficial owners to any beneficial owners, of any notice which is permitted or required to be given to Holders under this Resolution; or (5) any action taken by the Securities Depository or its nominee as Holder of book-entry Commercial Paper Notes.

(e) The Securities Depository may determine not to continue to act as securities depository for the Commercial Paper Notes, and the Authority may determine to discontinue the book-entry-only issuance of the Commercial Paper Notes through the Securities Depository and in such case shall deliver a certificate to the Issuing and Paying Agent and the affected Dealer to that effect. In either case, if the Authority determines to replace the Securities Depository with another qualified securities depository, the Authority shall prepare or direct the preparation of

one or more new, separate, fully registered Master Notes, registered in the name of such successor or substitute qualified securities depository or its nominee, or make such other arrangements acceptable to the Authority, the Issuing and Paying Agent and the replacement Securities Depository as are not inconsistent with the terms of this Indenture. If the Authority fails to identify another securities depository to replace the Securities Depository, the Authority may amend this Indenture pursuant to Section 9.01 hereof and shall deliver to the Issuing and Paying Agent for safekeeping, completion, authentication and delivery in accordance with the provisions of this Indenture, as so amended, and of the Issuing and Paying Agency Agreement, Commercial Paper Notes executed on behalf of the Authority, with the date of issuance, principal amount, maturity date, owner and rate of interest left blank. Each such Commercial Paper Note instrument shall be held in safekeeping by the Issuing and Paying Agent until authenticated and issued in accordance with the provisions of this Indenture and of the Issuing and Paying Agency Agreement.

Section 17.7. Non-Presented Commercial Paper Notes. Any monies held by the Issuing and Paying Agent for the Holders of matured Commercial Paper Notes which shall remain unclaimed by such Holders for six months after the date on which such Commercial Paper Notes shall have matured shall be paid to the Authority upon the request of the Authority to the Issuing and Paying Agent, in accordance with the Issuing and Paying Agency Agreement. Upon such payment to the Authority, the Authority shall hold such monies in trust for the Holders of such matured Commercial Paper Notes and such Holders shall look only to the Authority for the payment of such Commercial Paper Notes as provided in this Indenture.

Section 17.8. Forms of Commercial Paper Notes. Each separate Master Note evidencing a separate series of Commercial Paper Note entered into between the Authority and the Issuing and Paying Agent and the endorsement for authentication to appear thereon, shall be substantially in the form of Exhibit A-1 hereto, with such appropriate series designations, insertions, omissions, substitutions and other variations as are permitted or required by this Indenture, and may have such letters, numbers or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures, or CUSIP) and such legends and endorsements thereon as may, consistent herewith, be approved by an Authorized Representative.

Commercial Paper Notes issued directly by the Authority shall be in substantially the form of Exhibit A-2 hereto, with such appropriate series designations, insertions, omissions, substitutions and other variations as are permitted or required by this Indenture, and may have such letters, numbers or other marks of identifications (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures, or CUSIP) and such legends and endorsements thereon as may, consistent herewith, be approved by an Authorized Representative.

No Master Note or other form of Commercial Paper Note shall be valid or obligatory for any purpose until manually countersigned for authentication by the Issuing and Paying Agent.

Section 17.9. Special Provisions Relating to Subordinated Credit Support Instruments.

(a) All Commercial Paper Notes shall be supported by a Subordinated Credit Support Instrument. The Authority agrees and covenants that it shall maintain, or cause the City to maintain, a right under each such Subordinated Credit Support Instrument to, and thereby shall permit the Issuing and Paying Agent to, draw funds under each such Subordinated Credit Support Instrument to pay the principal of and interest on all Commercial Paper Notes supported thereby in an aggregate amount at least equal to (i) the principal amount of all related Outstanding Commercial Paper Notes and (ii) the interest accrued and to accrue on all related Outstanding Commercial Paper Notes.

(b) To the extent that a Subordinated Credit Support Instrument is in full force and effect and so provides, the obligations of the City to make payments thereunder shall constitute a Subordinated Credit Provider Reimbursement Obligation and shall constitute a Subordinated Obligation pursuant to the Agreement.

(c) The Authority shall not substitute a Subordinated Credit Support Instrument or consent to any assignment by a bank under any Subordinated Credit Support Instrument with respect to any Commercial Paper Notes that such Subordinated Credit Support Instrument supports prior to the payment or defeasance of the Commercial Paper Notes secured by such Subordinated Credit Support Instrument. The Authority shall not cause more than one Subordinated Credit Support Instrument to be in effect at any particular time with respect to any series of Commercial Paper Notes.

Section 17.10. Dealers; Dealer Agreements. Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC have been appointed as the initial Dealers for the Commercial Paper Notes. A Dealer may resign or be discharged of the duties and obligations created by this Indenture in accordance with the applicable Dealer Agreement. The Authority agrees and covenants that it will maintain Dealer Agreements in full force and effect providing for the marketing of all Commercial Paper Notes Outstanding.

Section 17.11. Issuing and Paying Agent. U.S. Bank National Association in its capacity as Trustee hereunder shall act as the Issuing and Paying Agent for the Commercial Paper Notes. The Issuing and Paying Agent may resign or be discharged of the duties and obligations created by the Issuing and Paying Agency Agreement in accordance therewith; provided, however, that any such removal or resignation shall not be effective prior to the earlier of (i) the appointment of a successor Issuing and Paying Agent and the delivery of each Subordinated Credit Support Instrument to such successor Issuing and Paying Agent or (ii) the maturity of all Outstanding Commercial Paper Notes. The Authority shall promptly appoint a successor Issuing and Paying Agent. Any Issuing and Paying Agent appointed under the provisions of this Section shall be a bank or trust company that is qualified to act as Trustee pursuant to Section 7.02 (e) hereof.

Section 17.12. Delegation of Authority to City Regarding the Commercial Paper Notes. The Authority hereby irrevocably delegates all authority to the City to act on behalf of the Authority, and irrevocably appoints the City as its agent to take all actions and make all determinations to be performed or made by the Authority, and to receive all notices, reports and other information, with respect to any matter relating to the Commercial Paper Notes under this

Fifth Supplement, the Issuing and Paying Agency Agreement and each Dealer Agreement. Notwithstanding the foregoing, the Commercial Paper Notes shall continue to be special limited obligations of the Authority and any other payment or indemnification obligations of the Authority under this Fifth Supplement, the Issuing and Paying Agency Agreement and the Dealer Agreements remain obligations of the Authority.

Section 17.13. Commercial Paper Notes Costs of Issuance Account. The Trustee is directed to establish a special trust account to be designated the “Public Facilities Financing Authority of the City of San Diego Water System Improvement Project Costs of Issuance Account – Commercial Paper Notes.” The Trustee shall disburse moneys from the Commercial Paper Notes Costs of Issuance Account to pay Costs of Issuance with respect to the Commercial Paper Notes. Such disbursements shall be made from time to time upon receipt of Requisitions of the City on behalf of the Authority substantially in the form attached as Exhibit B to this Fifth Supplement. All amounts, not the subject of any prior requisition, on deposit in the Costs of Issuance Account for the Commercial Paper Notes on the date which is six months following their date of deposit therein (or such earlier date as the City may direct the Trustee in writing) shall be transferred by the Trustee to the Commercial Paper Notes Acquisition Account to be applied as set forth in Section 17.14 hereof.

Section 17.14. Commercial Paper Notes Acquisition Account; Acquisition of Commercial Paper Notes Components; Completion Date. The City is directed to establish within the Acquisition Fund a special trust account to be designated the “Public Facilities Financing Authority of the City of San Diego Water System Improvement Project Acquisition Account – Commercial Paper Notes”. Money in the Commercial Paper Notes Acquisition Account deposited therein from the proceeds of Commercial Paper Notes shall be used to pay Project Costs. Such disbursements shall be made from time to time upon receipt of Requisitions of the City on behalf of the Authority substantially in the form attached as Exhibit C to this Fifth Supplement. If the City shall certify to the Trustee that moneys are no longer required for the payment of any Project Costs and there shall remain any balance of money in the Commercial Paper Notes Acquisition Account or any account or subaccount therein, all money so remaining shall be transferred to the Subordinated Bonds Payment Fund to be applied as a credit towards the next transfer pursuant to Section 5.07(e) hereof in connection with the retirement of Commercial Paper Notes in an aggregate principal amount equal to such money remaining in the Acquisition Account. The Authority hereby appoints the City as its agent for the acquisition and construction of the Commercial Paper Notes Components with moneys on deposit in the Commercial Paper Notes Acquisition Account.

Section 17.15. Compliance with Commercial Paper Notes Tax Certificate. The Authority covenants and agrees to comply with the terms of each Commercial Paper Notes Tax Certificate delivered on the respective Commercial Paper Notes Closing Date, it being acknowledged and agreed that Bond Counsel will rely upon the same in delivering its opinion respecting the tax status of the Commercial Paper Notes.

Section 3. **Amendments to the Original Indenture.** Pursuant to Section 9.01(b) of the Original Indenture, the amendments set forth in this Section 3 shall be made to the Original Indenture.

(A) The definition of Interest Payment Date and Principal Payment Date in the Original Indenture shall be amended to be as follows:

The term “Interest Payment Date” means each February 1 and August 1, each date on which Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture.

The term “Principal Payment Date” means each August 1, each date on which Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture.

(B) Section 3.04(d) of the Original Indenture is amended to be as follows:

The Additional Bonds shall be payable as to principal and interest on such dates as shall be provided for in the Supplemental Indenture, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months.

(C) Sections 5.07 (b) and (c) of the Original Indenture shall be amended to be as follows:

(b) Except to the extent that payment is made of interest on the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each Interest Payment Date, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Interest Account that amount of money that, together with any money contained in the Subordinated Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date. No deposit need be made in the Subordinated Bonds Interest Account if the amount contained in the Subordinated Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date; provided that the Authority may direct the Trustee to maintain amounts in the Subordinated Bonds Interest Account following payment of all amounts required to be paid under the Indenture to be used for payments on Commercial Paper Notes on future Interest Payment Dates, and in such instance, such additional amount shall not be included as amounts available to pay interest becoming due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Subordinated Bonds as it shall become due and payable (including accrued interest on any Subordinated Bonds redeemed prior to maturity).

(c) Except to the extent that payment is made of the principal of the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each Principal Payment Date, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Principal Account that amount of money that, together with any money contained in the Subordinated Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Subordinated Bonds. No deposit need be made in the Subordinated Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on Outstanding Subordinated Bonds. All

money in the Subordinated Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Subordinated Bonds as it shall become due and payable.

(D) Section 5.07 of the Original Indenture shall be amended to add the following:

(f) On or before each date any Commercial Paper Note matures, the Trustee shall transfer from the Subordinated Bonds Payment Fund to the Issuing and Paying Agent for deposit in the applicable Reimbursement Account that amount of money that equals the aggregate amount of interest or principal becoming due and payable on the Commercial Paper Notes to the extent that payment of such interest on or principal of the Commercial Paper Notes is not made from the proceeds of Commercial Paper Notes but is made from the proceeds of a Draw under the related Subordinated Credit Support Instrument. On or before each date any related Subordinated Credit Provider Reimbursement Obligations become due and payable, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the applicable Reimbursement Account that amount of money that, together with any amounts transferred pursuant to the preceding sentence, equals the amount of any such Subordinated Credit Provider Reimbursement Obligations when due.

Section 4. Authority for Amendments. The amendments to the Original Indenture in Section 3 of this Fifth Supplement are authorized by Section 9.03 of the Original Indenture.

Section 5. Applicability of Original Indenture, First Supplement, Second Supplement, Third Supplement and Fourth Supplement. Except insofar as herein otherwise expressly provided, all the definitions, provisions, terms, and conditions of the Original Indenture, the First Supplement, the Second Supplement, the Third Supplement and the Fourth Supplement shall be deemed to be incorporated in and made a part of this Fifth Supplement. The Original Indenture, as supplemented and amended by the First Supplement, the Second Supplement, the Third Supplement, the Fourth Supplement and this Fifth Supplement, is in all respects ratified, approved, and confirmed. The Original Indenture, the First Supplement, the Second Supplement, the Third Supplement, the Fourth Supplement and this Fifth Supplement shall hereafter be read, taken, and considered as one and the same instrument, and the parties agree to conform to and comply with all and singular the terms, provisions, covenants, and conditions set forth therein and herein.

Section 6. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the City or the Trustee shall be contrary to law, then such agreement or agreements, such covenant or covenants, or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof.

Section 7. Articles and Section Headings and References. The headings or titles of the several articles and sections hereof, and the table of contents hereto, shall be solely for convenience of reference and shall not affect the meaning, construction, or effect of this Fifth Supplement. All references herein to “Articles,” “Sections,” and other subdivisions or clauses are to the corresponding Articles, Sections, subdivisions, or clauses of the Original Indenture as supplemented and amended by the First Supplement, the Second Supplement, the Third

Supplement, the Fourth Supplement and this Fifth Supplement as a whole. The words “hereby,” “herein,” “hereof,” “hereto,” “herewith,” “hereunder,” and other words of similar import refer to the Original Indenture as supplemented and amended by the First Supplement, the Second Supplement, the Third Supplement, the Fourth Supplement and this Fifth Supplement as a whole and not to any particular Article, Section, subdivision, or clause hereof.

Section 8. Execution in Several Counterparts. This Fifth Supplement 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 Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 9. Governing Law. This Fifth Supplement shall be governed by the laws of the State of California applicable to contracts made and performed in such State.

IN WITNESS WHEREOF, the Authority and the Trustee have caused this Fifth Supplemental Indenture to be executed by their duly authorized officers, all as of the date first above written.

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

By: _____
[Sherri S. Lightner]
Chair

ATTEST:

By: _____
Elizabeth S. Maland
Secretary

APPROVED AS TO FORM:

GENERAL COUNSEL TO THE AUTHORITY

By: _____
Brant C. Will
Deputy General Counsel

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By: _____
Authorized Officer

EXHIBIT A-1

FORM OF MASTER NOTE

[Attach to DTC Form of Municipal Commercial Paper – TECP Master Note]

ANNEX I TO MUNICIPAL COMMERCIAL PAPER – TECP MASTER NOTE

The Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers authority organized and existing under the laws of the State of California (the “Authority”), acknowledges itself indebted to, and for value received, hereby promises to pay to Cede & Co., as nominee of The Depository Trust Company, or to registered assigns: (i) the principal amount, together with unpaid accrued interest thereon, if any, on the maturity date of each obligation identified on the records of the Authority (the “Underlying Records”) as being evidenced by this Master Note, which Underlying Records are maintained by U.S. Bank National Association (the “Issuing and Paying Agent”); (ii) interest on the principal amount of each such obligation that is payable in installments, if any, on the due date of each installment, as specified on the Underlying Records; and (iii) the principal amount of each such obligation that is payable in installments, if any, on the due date of each installment, as specified on the Underlying Records. Interest shall be calculated at the rate and according to the calculation convention specified on the Underlying Records. Payments shall be made solely from the sources stated on the Underlying Records by wire transfer to the registered owner from Issuing and Paying Agent without the necessity of presentation and surrender of this Master Note.

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 the Book-Entry Commercial Paper Notes and this Master Note do exist, have happened, and have been performed in due time, form, and manner as required by the provisions of the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 *et seq.* of the Government Code of the State of California (the “Act”) and the laws of the State of California (the “State”), and that the issue of the Book-Entry Commercial Paper Notes and this Master Note, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Constitution and laws of the State of California.

This Master Note shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the Issuing and Paying Agent shall have authenticated the same by manual signature.

The Book-Entry Commercial Paper Notes and this Master Note are a duly authorized issue of commercial paper notes of the Authority designated as its “Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)” (the “Commercial Paper Notes”), all of which have been issued under the authority of and full compliance with the Act and the provisions of an Indenture, dated as of January 1, 2009, as supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of June 1, 2010, a Third Supplemental Indenture, dated as of April 1, 2012, by a Fourth Supplemental Indenture, dated as

of June 1, 2016 and by a Fifth Supplemental Indenture, dated as of January 1, 2017 (collectively, the “Indenture”), each by and between the Authority and U.S. Bank National Association, as Trustee (the “Trustee”).

This Master Note evidences the obligation of the Authority to pay the principal of and interest on, and only on, the Book-Entry Commercial Paper Notes referred to in the Indenture.

Reference is hereby made to the Indenture (a copy of which is on file at said corporate trust office of the Trustee) and all indentures supplemental thereto for a description of the rights thereunder of the registered owners of the Book-Entry Commercial Paper Notes, 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 Authority thereunder. Reference is hereby made to the Indenture for definitions of terms used and not otherwise defined herein, and to all of the provisions of which (including provisions for issuance of obligations on a parity of security herewith) the Holder by acceptance of this Master Note hereby assents.

The Commercial Paper Notes shall be issued from time to time to aid in the financing of the acquisition, construction, installation, and improvement of certain facilities relating to the Water System of the City of San Diego (the “City”), to be sold to the City by the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) pursuant to an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as supplemented, including, without limitation, by a 2012A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2012, by a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016 and by a 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017 (as supplemented, the “Agreement”), by and between the Corporation as seller and the City as purchaser.

The Book-Entry Commercial Paper Notes and this Master Note, together with the other Commercial Paper Notes, and the interest thereon are payable from Subordinated Revenues (as such term is defined in the Indenture), consisting primarily of Subordinated Installment Payments to be made by the City under the Agreement and are secured by a pledge of said Subordinated Revenues as provided in 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 Book-Entry Commercial Paper Notes and this Master Note, together with the other Commercial Paper Notes, are special obligations of the Authority and are not a lien or charge upon the funds or property of the Authority, except to the extent of the aforesaid pledge and assignment. The Book-Entry Commercial Paper Notes and this Master Note, together with the other Commercial Paper Notes, are not secured by any reserve fund.

The Trustee and the Issuing and Paying Agent have no obligation or liability to the registered owners of the Book-Entry Commercial Paper Notes to make payments of principal of or interest on the Book-Entry Commercial Paper Notes, except from amounts on deposit for such purposes with the Trustee. The Trustee’s and the Issuing and Paying Agent’s sole obligations are to administer for the benefit of the registered owners of the Book-Entry Commercial Paper Notes the various funds and accounts established under the Indenture and, to the extent provided in the Indenture, to enforce the rights of the Authority under the Agreement.

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

The Indenture and the rights and obligations of the Authority and of the registered owners of the Book-Entry Commercial Paper Notes 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 (i) permit the creation by the Authority of any pledge of the Subordinated Revenues as provided in the Indenture superior to or on a parity with the pledge created thereby for the benefit of any Book-Entry Commercial Paper Notes without the written consent of the registered owner thereof; (ii) modify any rights or obligations of the Trustee without its prior written assent thereto; or (iii) modify provisions respecting the time or amount of payments on any Book-Entry Commercial Paper Note, without the written consent of the registered owner thereof, all as more fully set forth in the Indenture.

Neither the faith and credit nor the taxing power of the Authority, the City, the State of California, or any of its political subdivisions is pledged to the payment of the Book-Entry Commercial Paper Notes or this Master Note, which are special obligations of the Authority, payable solely from Subordinated Revenues. Neither the payment of the principal of the Book-Entry Commercial Paper Notes or this Master Note, or any part thereof nor any interest thereon constitutes a debt, liability, or obligation of the City, any officer of the Authority, or any person executing this Master Note.

Unless this Master Note is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

At the request of the registered owner, the Authority shall promptly issue and deliver one or more separate note certificates evidencing each obligation evidenced by this Master Note. As of the date any such note certificate or certificates are issued, the obligations which are evidenced thereby shall no longer be evidenced by this Master Note.

This Master Note is a valid and binding obligation of the Authority.

EXHIBIT A-2

FORM OF COMMERCIAL PAPER NOTE

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

Series: _____ Note Date: _____
No.: _____
Principal Amount: _____ Maturity Date: _____
Interest to Maturity: _____ Number of Days: _____
Due at Maturity: _____ Interest Rate (%): _____

The Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers authority organized and existing under the laws of the State of California (the "Authority"), acknowledges itself indebted to, and for value received, hereby promises to pay to the party specified above: (i) the principal amount specified above on the maturity date specified above, together with unpaid accrued interest thereon, if any, on said principal amount at said maturity date, from the above specified note date to said maturity date at the per annum interest rate shown above (calculated on the basis of a 365/366-day year for the actual number of days elapsed to the date on which this Commercial Paper Note matures); both principal and interest on this Commercial Paper Note being payable in lawful money of the United States of America at the designated principal office of the U.S. Bank National Association, as Issuing and Paying Agent (the "Issuing and Paying Agent") executing the "Certificate of Authentication" endorsed hereon and appearing below, or its successor at the principal office of such successor.

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 Commercial Paper Note do exist, have happened, and have been performed in due time, form, and manner as required by the provisions of the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 *et seq.* of the Government Code of the State of California (the "Act") and the laws of the State of California (the "State"), and that the issue of this Commercial Paper Note, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Constitution and laws of the State of California.

This Commercial Paper Note shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Issuing and Paying Agent.

This Commercial Paper Note is a duly authorized issue of commercial paper notes of the Authority designated as its "Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)" (the "Commercial Paper Notes"), all of which have been issued under the

authority of and full compliance with the Act and the provisions of an Indenture, dated as of January 1, 2009, as supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of June 1, 2010, a Third Supplemental Indenture, dated as of April 1, 2012, by a Fourth Supplemental Indenture, dated as of June 1, 2016 and by a Fifth Supplemental Indenture, dated as of January 1, 2017 (collectively, the “Indenture”), each by and between the Authority and U.S. Bank National Association, as Trustee (the “Trustee”).

Reference is hereby made to the Indenture (a copy of which is on file at said corporate trust office of the Trustee) and all indentures supplemental thereto for a description of the rights thereunder of the registered owners of the Commercial Paper Notes, 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 Authority thereunder. Reference is hereby made to the Indenture for definitions of terms used and not otherwise defined herein, and to all of the provisions of which (including provisions for issuance of obligations on a parity of security herewith) the Holder by acceptance hereof hereby assents.

The Commercial Paper Notes shall be issued from time to time to aid in the financing of the acquisition, construction, installation, and improvement of certain facilities relating to the Water System of the City of San Diego (the “City”), to be sold to the City by the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) pursuant to an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as supplemented, including, without limitation, by a 2012A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2012, by a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016 and by a 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017 (as supplemented, the “Agreement”), by and between the Corporation as seller and the City as purchaser.

This Commercial Paper Note, together with the other Commercial Paper Notes, and the interest thereon are payable from Subordinated Revenues (as such term is defined in the Indenture), consisting primarily of Subordinated Installment Payments to be made by the City under the Agreement and are secured by a pledge of said Subordinated Revenues as provided in 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. This Commercial Paper Note, together with the other Commercial Paper Notes, are special obligations of the Authority and are not a lien or charge upon the funds or property of the Authority, except to the extent of the aforesaid pledge and assignment. This Commercial Paper Note, together with the other Commercial Paper Notes, are not secured by any reserve fund.

The Trustee has no obligation or liability to the registered owner of this Commercial Paper Note to make payments of principal of or interest on this Commercial Paper Note, except from amounts on deposit for such purposes with the Trustee. The Trustee’s sole obligations are to administer for the benefit of the registered owner of this Commercial Paper Note the various funds and accounts established under the Indenture and, to the extent provided in the Indenture, to enforce the rights of the Authority under the Agreement.

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

The Indenture and the rights and obligations of the Authority and of the registered owner of this Commercial Paper Note 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 (i) permit the creation by the Authority of any pledge of the Subordinated Revenues as provided in the Indenture superior to or on a parity with the pledge created thereby for the benefit of this Commercial Paper Note without the written consent of the registered owner hereof; (ii) modify any rights or obligations of the Trustee without its prior written assent thereto; or (iii) modify provisions respecting the time or amount of payments on this Commercial Paper Note, without the written consent of the registered owner hereof, all as more fully set forth in the Indenture.

The Authority and the Issuing and Paying Agent may deem and treat the person in whose name this Commercial Paper Note shall be registered upon the books of the Issuing and Paying Agent as the absolute owner of this Commercial Paper Note, whether this Commercial Paper Note shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on this Commercial Paper Note and for all other purposes, and all such payments so made to any such registered owner or upon his or her order shall be valid and effectual to satisfy and discharge the liability upon this Commercial Paper Note to the extent of the sum or sums so paid, and neither the Authority nor the Issuing and Paying Agent shall be affected by any notice to the contrary.

Neither the faith and credit nor the taxing power of the Authority, the City, the State of California, or any of its political subdivisions is pledged to the payment of this Commercial Paper Note, which is a special obligation of the Authority, payable solely from Subordinated Revenues. Neither the payment of the principal of this Commercial Paper Note, or any part hereof nor any interest hereon constitutes a debt, liability, or obligation of the City, any officer of the Authority, or any person executing this Commercial Paper Note.

IN WITNESS WHEREOF, the Public Facilities Financing Authority of the City of San Diego has caused this Commercial Paper Note to be executed in its name and on its behalf by the facsimile signature of its Chair or Vice-Chair and attested to by the facsimile signature of its Secretary, and has caused this Commercial Paper Note to be dated the Dated Date stated above.

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN DIEGO

By: _____
Chair or Vice-Chair

Attest:

Secretary

ISSUING AND PAYING AGENT'S CERTIFICATE OF AUTHENTICATION

This Commercial Paper Note is one of the Commercial Paper Notes described in the within-mentioned Indenture and Issuing and Paying Agency Agreement, which Commercial Paper Note has been authenticated and registered on the date set forth below.

Date of Authentication:

U.S. Bank National Association, as Issuing and
Paying Agent

By: _____
Authorized Officer

ASSIGNMENT

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

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

the within-mentioned Commercial Paper Note and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the registration books of the Authority with full power of substitution in the premises.

Dated:

Signature Guaranteed:

Note: Signature(s) must be guaranteed by a qualified guarantor.

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

EXHIBIT B

**FORM OF REQUISITION REQUEST –
COMMERCIAL PAPER NOTES COSTS OF ISSUANCE ACCOUNT**

PAID DATE: _____

TO: U.S. Bank National Association, as Trustee

DATE:

RE: Public Facilities Financing Authority of the City of San Diego
Subordinated Water Revenue Commercial Paper Notes
(Payable Solely from Subordinated Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

Pursuant to Section 17.13 of the Indenture, dated as of January 1, 2009, as supplemented and amended (the “Indenture”), by and between the Public Facilities Financing Authority of the City of San Diego (the “Authority”) and U.S. Bank National Association (the “Trustee”), the City of San Diego (the “City”), on behalf of the Authority, instructs you to immediately disburse from the Commercial Paper Notes Costs of Issuance Account established under the Indenture, for the payment of Costs of Issuance relating to the issuance of the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured By Net System Revenues of the Water Utility Fund) in the sum(s) specified in Schedule I attached hereto, for payment made or due to the individuals, firms, or corporations whose names and addresses appear therein, for payment of the specified costs and specified purposes.

In respect to each payment, the City on behalf of the Authority certifies as of the date hereof that:

- (a) the obligations in the stated amounts have been properly incurred by the City on behalf of itself or the Authority and each item thereof is a proper charge against the Commercial Paper Notes Costs of Issuance Account established under the Indenture and has not been the basis of a previous disbursement;
- (b) the nature of each obligation is specified in reasonable detail; and
- (c) a bill or statement of account for each obligation accompanies this Requisition.

THE CITY OF SAN DIEGO

By: _____
Authorized Officer
Debt Management Department

By: _____
Authorized Officer
Office of the City Comptroller

REQUISITION SCHEDULE I

PURPOSE

PAYEE

AMOUNT

EXHIBIT C

**FORM OF REQUISITION REQUEST –
COMMERCIAL PAPER NOTES ACQUISITION FUND**

PAID DATE: _____

TO: Chief Investment Officer / City Treasurer
Office of the City Treasurer
City of San Diego

DATE:

RE: Public Facilities Financing Authority of the City of San Diego
Subordinated Water Revenue Commercial Paper Notes
(Payable Solely from Subordinated Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

Pursuant to Section 17.14 of the Indenture, dated as of January 1, 2009, as supplemented and amended (the “Indenture”), by and between the Public Facilities Financing Authority of the City of San Diego (the “Authority”) and U.S. Bank National Association, the City of San Diego (the “City”), on behalf of the Authority, instructs you to disburse from the Acquisition Fund established under the Indenture, for the payment of Project Costs relating to the Commercial Paper Notes Components financed with proceeds of the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured By Net System Revenues of the Water Utility Fund) the amounts shown below as reflected in the labor costs and/or invoice(s) attached hereto. The payee(s), the purpose, and the amount of the disbursement requested as follows:

| <u>Payee</u> | <u>Purpose</u> | <u>Amount</u> |
|--------------|----------------|---------------|
|--------------|----------------|---------------|

In respect to each payment, the City on behalf of the Authority certifies as of the date hereof that the obligations in the stated amounts have been properly incurred by the City on behalf of itself or the Authority and each item thereof is a proper charge against the Acquisition Fund and has not been the basis of a previous disbursement. The nature of each obligation is specified in reasonable detail and a bill or statement of account for each obligation accompanies this Requisition.

[The amounts paid pursuant to this Requisition are for Project Costs of the following Commercial Paper Notes Components: _____ [insert description],

which description is deemed to be incorporated into Exhibit A of the 2017 Commercial Paper Supplement.]

Capitalized terms used in this Requisition and not otherwise defined shall have the meanings attributable to them in the Indenture.

THE CITY OF SAN DIEGO

Requested By: _____
Authorized Officer
Public Utilities Department

Approved By: _____
Authorized Officer
Office of the City Comptroller

ISSUING AND PAYING AGENCY AGREEMENT

by and between

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

and

**U.S. BANK NATIONAL ASSOCIATION,
as Issuing and Paying Agent**

Dated as of January 1, 2017

relating to

\$250,000,000

**Public Facilities Financing Authority of the City of San Diego
Subordinated Water Revenue Commercial Paper Notes
(Payable Solely from Subordinated Installment Payments Secured
by Net System Revenues of the Water Utility Fund)**

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ISSUING AND PAYING AGENCY AGREEMENT

THIS ISSUING AND PAYING AGENCY AGREEMENT (this “Agreement”) is entered into January 1, 2017, by and between the Public Facilities Financing Authority of the City of San Diego (the “Authority”) and U.S. Bank National Association, acting solely in its capacity as Issuing and Paying Agent and as Trustee under the Indenture hereinafter referred to (the “Issuing and Paying Agent”);

WHEREAS, the Authority proposes to issue Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Commercial Paper Notes”) from time to time pursuant to an Indenture, dated as of January 1, 2009, by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as amended and supplemented by the First Supplemental Indenture, dated as of June 1, 2009, by the Second Supplemental Indenture, dated as of June 1, 2010, by the Third Supplemental Indenture, dated as of April 1, 2012, by the Fourth Supplemental Indenture, dated as of June 1, 2016 and by the Fifth Supplemental Indenture, dated as of January 1, 2017 (collectively, the “Indenture”), each by and between the Authority and the Trustee; and

WHEREAS, the Authority proposes to appoint the Issuing and Paying Agent as the Authority’s agent in connection with the issuance and payment of the Commercial Paper Notes, all pursuant to the terms of this Agreement and the Indenture; and

NOW THEREFORE, in consideration of the foregoing, of the mutual promises of the parties hereto and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions. Capitalized terms used in this Agreement and not otherwise defined have the meanings assigned to them in the Indenture. The following definitions apply whenever the specified terms are used in this Agreement:

“**Authorized Representatives**” shall have the meaning specified in Section 2 hereof.

“**Electronic Means**” shall mean S.W.I.F.T., e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Issuing and Paying Agent or another method or system specified by the Issuing and Paying Agent as available for use in connection with its services hereunder.

“**Final Drawing Notice**” shall have the meaning given to such term in the related Subordinated Credit Support Instrument or the agreement providing for the delivery of such Subordinated Credit Support Instrument.

“**Interest Component**” shall mean the maximum amount that may be drawn under a Subordinated Credit Support Instrument with respect to interest on the Commercial Paper Notes supported by such facility.

“**Missing Notes**” shall have the meaning specified in Section 2 hereof.

“**Notice of No Issuance**” shall mean a Notice of No Issuance delivered pursuant to a Subordinated Credit Support Instrument for Commercial Paper Notes.

“**Principal Component**” shall mean the maximum amount that may be drawn under a Subordinated Credit Support Instrument with respect to principal of the Commercial Paper Notes supported by such facility.

“**Subordinated Credit Support Instrument**” shall mean each Subordinated Credit Support Instrument referred to in Section 3(b), and any Subordinated Credit Support Instrument which shall be issued, from time to time, in support of a series of Commercial Paper Notes.

Section 2. Issuance of Commercial Paper Notes.

(a) Commercial Paper Notes Issued through The Depository Trust Company.

If the Authority issues Commercial Paper Notes through The Depository Trust Company (“DTC”), the Authority acknowledges that (i) the Issuing and Paying Agent has previously entered into a commercial paper certificate agreement (the “Certificate Agreement”), a copy of which is appended hereto as Appendix B, with DTC and (ii) the continuation in effect of the Certificate Agreement is a necessary prerequisite to the Issuing and Paying Agent’s providing services related to the issuance and payment of each of the Commercial Paper Notes. The Authority understands and agrees that the Certificate Agreement shall supplement the provisions of this Agreement, and that the Authority is bound by the provisions of the Certificate Agreement.

The Authority has delivered to the Issuing and Paying Agent executed Letters of Representations with respect to the Commercial Paper Notes (collectively, the “Representations”) copies of which are appended hereto as Appendix C. Further, the Authority understands and agrees that such Representations supplement the provisions of this Agreement, and that the Authority and DTC shall be bound by the provisions of the Representations. The Issuing and Paying Agent and the Authority agree to comply with the relevant portions of DTC’s Commercial Paper Issuing and Paying Agent Manual and the DTC Same Day Settlement System Rules (collectively, the “DTC Rules”).

The Authority has delivered to the Issuing and Paying Agent one DTC Master Note relating to each series of Notes (collectively, the “Master Notes”) evidencing the Notes to be issued. The Authority’s book-entry notes (“Book-Entry Commercial Paper Notes”) shall not be issued in physical form, but their aggregate face amount shall be represented by each Master Note in the form of Appendix D executed by the Authority pursuant to the book-entry commercial paper program of DTC. Such Master Notes shall (i) bear the manual or facsimile signatures of the requisite number of Authorized Signers (hereinafter defined), (ii) specify the date of issuance, full legal name of the Authority, and the name of the entity acting as paying agent for the Authority, and (iii) be registered in the name of Cede & Co., as nominee of DTC. The Issuing and Paying Agent shall maintain the Master Notes in safekeeping, in accordance with its customary practices. As long as Cede & Co. is the registered owner of the Master Notes,

the beneficial ownership interest therein shall be shown on, and the transfer of ownership thereof shall be effected through, entries on the books maintained by DTC and the books of its direct and indirect participants. The Master Notes and the Book-Entry Commercial Paper Notes shall be subject to DTC's rules and procedures, as amended from time to time. The Issuing and Paying Agent shall not be liable or responsible for sending transaction statements of any kind to DTC's participants or the beneficial owners of the Book-Entry Commercial Paper Notes, or for maintaining, supervising or reviewing the records of DTC or its participants with respect to such Book-Entry Commercial Paper Notes. In accordance with DTC's program, the Issuing and Paying Agent shall obtain a written list of CUSIP numbers for Authority's Book-Entry Commercial Paper Notes, and the Issuing and Paying Agent shall deliver such list to DTC. The Dealer or Issuing Paying Agent Agreement shall bill the Authority directly for any fee for the list of CUSIP numbers for the Authority's Book-Entry Commercial Paper Notes.

Any Commercial Paper Notes (as evidenced by the Master Notes), upon being issued by the Issuing and Paying Agent on behalf of the Authority, shall bind the Authority notwithstanding that such Authorized Signer shall have died or shall have otherwise ceased to hold office on the date such Note is issued by the Issuing and Paying Agent. Furthermore, the Authority agrees that the Issuing and Paying Agent shall have no duty or responsibility to determine the genuineness of the facsimile and/or manual signatures appearing on the Master Notes.

(b) Commercial Paper Notes Issued through the Authority.

If the Authority itself issues Commercial Paper Notes, each Commercial Paper Note shall be delivered by the Authority to the Issuing and Paying Agent, substantially in the form prescribed in the Indenture, with the amount, date of issue, maturity date, place of payment (if not printed thereon), and rate or amount of interest, left blank. The Notes shall be numbered consecutively and may bear such other identification as the Authority may deem appropriate. Deliveries of Note stock shall be made to the Issuing and Paying Agent from time to time. The Issuing and Paying Agent shall count and verify each such delivery under the Issuing and Paying Agent's normal control procedures. In the event that the Issuing and Paying Agent determines that one or more Notes are missing from a given delivery, the Issuing and Paying Agent shall promptly so advise the Authority and shall designate the same on the Issuing and Paying Agent's books as missing notes ("Missing Notes"). In no event shall the Issuing and Paying Agent make payment on any Missing Note; provided, however, that if the Authority advises the Issuing and Paying Agent that the Authority has recovered any Missing Note(s), the Issuing and Paying Agent shall delete such designation upon delivery of such Missing Note(s) to the Issuing and Paying Agent by the Authority or the Authority's designated representative and such Missing Note shall thereupon be a Note.

(c) Instructions by Authorized Representative.

Instructions relating to the completion and issuance of Commercial Paper Notes and any other action on the Authority's behalf hereunder shall be given to the Issuing and Paying Agent from time to time by an "Authorized Representative." An Authorized Representative shall be the Chair, the Vice Chair, or the Secretary of the Authority, or any other officer of the Authority or any Authorized City Representative (as defined in the Indenture). The Authority

shall furnish the Issuing and Paying Agent with specimen signatures for any Authorized Representative [as set forth in Appendix A attached hereto].

Section 3. Issuance Request; Subordinated Credit Support Instrument Terms.

(a) Issuance Request. Prior to the issuance by the Issuing and Paying Agent of any Commercial Paper Note, an Authorized Representative shall instruct the Issuing and Paying Agent or, in the case of Book-Entry Commercial Paper Notes, instruct the Issuing and Paying Agent to deliver appropriate issuance instructions to the Securities Depository, and acknowledge or confirm the same (whether an instruction, acknowledgment or confirmation, herein referred to as an “Issuance Request”). Each Issuance Request shall be substantially in the form attached hereto as Appendix D and shall include the following information: the series and aggregate principal amount of Commercial Paper Notes then to be issued, the rate or rates of interest, if any, on such Commercial Paper Notes, the issue date or dates and maturity date or dates of such Commercial Paper Notes, in the case of Book-Entry Commercial Paper Notes, each Securities Depository direct participant to which such Book-Entry Commercial Paper Note is to be credited on the books of the Securities Depository, and the principal amount (which shall be in authorized denomination) of Commercial Paper Notes to be credited to each such participant, unless such information is furnished to the Issuing and Paying Agent by the appropriate Dealer, and a direction to deposit the proceeds, if any, received upon the sale of such Commercial Paper Notes into the Acquisition Account or the Cost of Issuance Account, as applicable. No signature or additional confirmation on the Issuance Request will be required for any request submitted by Electronic Means by 10:00 AM San Diego time.

Upon the Issuing and Paying Agent’s receipt of instructions from an Authorized Representative, the Issuing and Paying Agent shall

- (1) in the case of Master Notes:
 - (A) hold the Master Notes in safekeeping;
 - (B) assign to each Commercial Paper Note issued upon the Authority’s instructions a CUSIP number as specified in and in accordance with the CUSIP number assignment received by the Issuing and Paying Agent from the CUSIP Bureau;
 - (C) cause to be delivered a Commercial Paper Note on behalf of the Authority upon receipt of instructions from an Authorized Officer of the Authority, as to series, principal amount, net dollar amount, payee, date of issue, maturity date (which shall be (i) not more than 270 days after the date of issuance and (ii) not after two Business Days prior to the stated expiration date of the related Subordinated Credit Support Instrument then in effect and supporting the related Commercial Paper Notes), rate and amount of interest, by way of data entry or date transfer to the DTC Same

Day Funds Settlement System (“SDFS”), and to receive from SDFS a confirmation receipt that such delivery was effected; and

(D) credit the net proceeds of all deliveries of Commercial Paper Notes to the appropriate account of the Authority established with the Issuing and Paying Agent as provided in Sections 4 and 5 hereof. The Authority understands that all instructions under this Agreement are to be directed to the Issuing and Paying Agent’s Commercial Paper Operations Department. The Issuing and Paying Agent shall provide the Authority, or, if applicable, the Dealers, with access to the Issuing and Paying Agent’s Money Market Issuance System or other electronic means (collectively, the “**System**”) in order that the Issuing and Paying Agent may receive electronic instructions for the issuance of Commercial Paper Notes. Electronic instructions must be transmitted in accordance with the procedures furnished by the Issuing and Paying Agent to the Authority or any Dealer in connection with the System. These transmissions shall be equivalent to the giving of a duly authorized written and signed instruction which the Issuing and Paying Agent may act upon without liability. In the event that the System is inoperable at any time, an Authorized Representative may deliver written or facsimile instructions to the Issuing and Paying Agent, which instructions shall be verified in accordance with any security procedures agreed upon by the parties. All issuance instructions regarding the Commercial Paper Notes must be received by 1:00 P.M. New York time (10:00 A.M. San Diego time) in order for the Commercial Paper Notes to be issued or delivered on the same day.

(2) in the case of Commercial Paper Notes of any series issued directly by the Authority:

(A) complete a Commercial Paper Note of such series as to amount, date of issue, maturity date (which shall be (i) Commercial Paper Notes not more than 270 days after the date of issue and (ii) not after two Business Days prior to the stated expiration date of the related Subordinated Credit Support Instrument then in effect and supporting the related Commercial Paper Notes), place of payment (if not printed thereon), the name of the registered owner (in the case of a registered Commercial Paper Note), and rate or amount of interest, in accordance with such instructions;

(B) authenticate the Commercial Paper Note by having any officer or other person designated by the Issuing and Paying Agent for that purpose countersign it; and

(C) deliver the Commercial Paper Note in accordance herewith to or for the account of the person designated in such instructions to receive such Commercial Paper Note (hereinafter sometimes called the “purchaser”).

(b) Initial Subordinated Credit Support Instruments. Prior to the initial issuance of the Commercial Paper Notes, the Authority shall cause to be delivered to the Issuing and Paying Agent the Subordinated Credit Support Instruments to be issued by Bank of the West (“BOTW”) to secure the Series A Commercial Paper Notes and Bank of America, N.A. (“BofA”) to secure the Series B Commercial Paper Notes (each of BOTW and BofA being a Subordinated Credit Provider as provided under the Agreement) pursuant to Subordinated Credit Support Instruments, dated as of January 1, 2017, between the City and each such Subordinated Credit Provider, as amended and supplemented from time to time in accordance with its terms (each, a Subordinated Credit Support Instrument as provided under the Agreement). The Stated Amount of the Subordinated Credit Support Instrument for the Series A Commercial Paper Notes (the applicable “Series A Stated Amount”) shall initially be equal to [\$77,465,754], consisting of an Interest Component of [\$2,465,754] (the applicable “Series A Interest Component”) plus a Principal Component of \$75,000,000 (the applicable “Series A Principal Component”). The Stated Amount of the Subordinated Credit Support Instrument for the Series B Commercial Paper Notes (the applicable “Series B Stated Amount”) shall initially be equal to [\$180,753,425], consisting of an Interest Component of [\$5,753,425] (the applicable “Series B Interest Component”) plus a Principal Component of \$175,000,000 (the applicable “Series B Principal Component”). The respective Stated Amounts and the Interest Components or the CP Principal Component shall be reduced or reinstated, as the case may be, in accordance with the respective Subordinated Credit Support Instrument. Draws under a Subordinated Credit Support Instrument shall be used to pay interest and principal only on the related series of Commercial Paper Notes.

The Authority shall not issue, or authorize the issuance of, and the Issuing and Paying Agent shall not permit the issuance of, Commercial Paper Notes, to the extent that (i) such issuance would violate the terms of the Indenture and (ii) the sum of the aggregate principal amount of all outstanding Commercial Paper Notes (after giving effect to such issuance) supported by the related Subordinated Credit Support Instrument would exceed the amount that may be Drawn thereunder in respect of principal of Commercial Paper Notes or the sum of the aggregate amount of interest payable (including any portion thereof not yet accrued) in respect of such Commercial Paper Notes would exceed the amount that may be Drawn in respect of interest on such Commercial Paper Notes. The Authority shall not cause more than one Subordinated Credit Support Instrument to be in effect at any particular time with respect to any series of Notes.

If the Issuing and Paying Agent has received a written notice from a Subordinated Credit Provider stating that an Event of Default has occurred under the related Subordinated Credit Support Instrument or a Subordinated Credit Provider has delivered a Notice of No Issuance pursuant to such Subordinated Credit Support Instrument to the Issuing and Paying Agent and the Authority, then the Issuing and Paying Agent shall not authenticate or issue any Commercial Paper Notes of the series supported by the related Subordinated Credit Support Instrument issued by such Subordinated Credit Provider from which such notice has been

received pursuant to this Agreement, unless and until it has received a written notice from such Credit Provider that the event of default notification has been rescinded. If a Subordinated Credit Support Instrument expires or terminates and the Authority enters into a successor Subordinated Credit Support Instrument in connection with the issuance and sale of its Commercial Paper Notes, then the procedures set forth in the preceding sentence shall apply to such Credit Support Instrument.

Notwithstanding anything herein to the contrary, upon receipt by the Issuing and Paying Agent of a Final Drawing Notice (as such term is defined in the related Subordinated Credit Support Instrument), the Issuing and Paying Agent shall follow the instructions set forth in such notice, including (i) ceasing to authenticate Commercial Paper Notes supported by the related Subordinated Credit Support Instrument on the date set forth in such Final Drawing Notice and (ii) immediately (and in no event later than the Business Day immediately preceding the termination date of such Subordinated Credit Support Instrument) make the Final Drawing (as such term is defined in the Subordinated Credit Support Instrument) under such Subordinated Credit Support Instrument to provide for the paying of the principal of an interest to accrue on the related Commercial Paper Notes that are outstanding and are maturing or are to mature after receipt of such Final Drawing Notice.

Section 4. Establishment of Accounts; Payment of Notes and Draws.

(a) The Issuing and Paying Agent shall establish accounts for each series of Commercial Paper Notes (each, a “Reimbursement Account”). Such accounts shall be designated in the form “[City of San Diego Subordinated Water Revenue CP-__ Reimbursement Account],” with the applicable series designation inserted in such account designation. The Issuing and Paying Agent shall establish separate and special purpose trust accounts for each series of Commercial Paper Notes (each, a “Credit Enhanced Note Account”). Such accounts shall be designated in the form, “[City of San Diego Subordinated CP-_ Credit Enhanced Note Account,]” with the applicable series designation inserted in such account designation.

(b) The proceeds of sale of any refunding Commercial Paper Notes, together with the money transferred from the Trustee from the Subordinated Bonds Payment Fund pursuant to Section 5.07 (f) of the Indenture to be used to reimburse the portion of the Draws equal to the accrued interest on matured Commercial Paper Notes of such series, shall be deposited in the related Reimbursement Account; provided that the proceeds of sale of any refunding Commercial Paper Notes may be deposited in a Reimbursement Account for another series of Commercial Paper Notes in accordance with instructions of an Authorized Representative delivered to the Issuing and Paying Agent in the manner specified in Section 2(c) hereof.

(c) Not later than the time specified in a Subordinated Credit Support Instrument for the submission of demands for payments to be made thereunder on or prior to any day on which any principal of or interest on the related outstanding Commercial Paper Notes is due and payable, the Issuing and Paying Agent shall submit a demand for payment under such Subordinated Credit Support Instrument in the manner provided therein in an amount equal to the principal of and interest on such outstanding Commercial Paper Notes due and payable on such date. The Issuing and Paying Agent shall deposit the proceeds of such Draw to the related

Credit Enhanced Note Account in respect of which such Draw was made, and apply such proceeds to the payment of principal of and interest on such series of Commercial Paper Notes.

(d) The Issuing and Paying Agent shall not be obligated to use its own funds to pay the principal of or interest on Commercial Paper Notes.

(e) The Issuing and Paying Agent shall accept, and shall be deemed to have knowledge of the contents of, all notices, advices and confirmations furnished by any Subordinated Credit Provider to the Issuing and Paying Agent pursuant to this Agreement and each Subordinated Credit Support Instrument, and shall be deemed to have knowledge of the contents of all other notices, advices and confirmations furnished by any Subordinated Credit Provider with respect to each Subordinated Credit Support Instrument and actually received by the Issuing and Paying Agent (including any Notice of No Issuance and any notice as to the principal amount of Draws outstanding and the related amounts of the Stated Amount and of the Principal Component and the Interest Component thereof).

(f) Notwithstanding anything to the contrary in the Indenture, moneys held in accounts held by the Issuing and Paying Agent hereunder other than amounts drawn under a Subordinated Credit Support Instrument shall be invested and reinvested by the Issuing and Paying Agent to the fullest extent practicable in Permitted Investments which mature not later than (i) 30 days after the date of purchase of such investments and (ii) at such times as shall be necessary to provide moneys when needed for payment to be made from such accounts. The Issuing and Paying Agent shall make all such investments of moneys held by it in accordance with written instructions from any Authorized Signer. Interest (net of which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in an account held by the Issuing and Paying Agent hereunder shall remain in such account. The proceeds of drawings under a Subordinated Credit Support Instrument shall be held uninvested.

(g) Upon the resignation or removal of the Issuing and Paying Agent and the appointment of a successor Issuing and Paying Agent pursuant to the Indenture and this Agreement, the Issuing and Paying Agent shall prepare and present to each Bank the Instructions to Transfer in the form attached to the related Commercial Paper Subordinated Credit Support Instrument, or otherwise take all action necessary, to effect the transfer of the related Subordinated Credit Support Instrument to the successor Issuing and Paying Agent.

Section 5. Reimbursement Accounts.

(a) Except as otherwise provided in Section 5(b) hereof, the Issuing and Paying Agent shall apply the amounts on deposit in the related Reimbursement Account to the reimbursement of related Draws outstanding on such day. No reimbursement of related Draws shall be made prior to the honoring of such Draws by the related Bank. Each reimbursement of Draws shall be made in accordance with the related Subordinated Credit Support Instrument.

(b) Upon the failure of a Subordinated Credit Provider to honor a properly presented and conforming drawing under a Subordinated Credit Support Instrument, any amounts on deposit in the related Reimbursement Account shall be applied to the payment of

principal of and accrued interest on such series of Commercial Paper Notes maturing on such day prior to the application of such proceeds to the reimbursement of Draws. If the moneys in the related Credit Enhanced Note Account and Reimbursement Account established for such series of Commercial Paper Notes in respect of which the related Subordinated Credit Provider has refused payment are not sufficient to pay the principal of and accrued interest on such Commercial Paper Notes in accordance with the preceding sentence, the Issuing and Paying Agent shall notify the Authority who shall notify the City of the amount of such insufficiency. The moneys transferred by the City pursuant to Section 3.05 of the Agreement in the amount of such insufficiency, together with the moneys in the related Credit Enhanced Note Account and Reimbursement Account established for such series of Commercial Paper Notes in respect of which the related Subordinated Credit Provider has refused payment, shall be applied to the payment of principal of and accrued interest on such series of Commercial Paper Notes maturing on such day.

Section 6. Payment of Notes. Payment of the principal of and interest on Book-Entry Commercial Paper Notes evidenced by a Master Note may be made by the Issuing and Paying Agent by wire transfer to DTC pursuant to and in accordance with the DTC Documents and the Master Note without the necessity of presentation and surrender of the Master Note. The Issuing and Paying Agent shall pay any other matured Commercial Paper Notes presented to the Issuing and Paying Agent for payment by the Holder thereof at the principal office of the Issuing and Paying Agent specified on the signature page of this Agreement, or at such other address as the Issuing and Paying Agent may designate in writing from time to time by notice to the Authority and the Dealer.

Section 7. Overdrafts. The Issuing and Paying Agent is authorized at any time to charge any account in the amount required for any payment by the Issuing and Paying Agent on the Authority's behalf in respect of any Commercial Paper Note or for any other amount due and payable by the Authority hereunder. The Issuing and Paying Agent shall have no obligation to pay any Commercial Paper Note that would result in an overdraft to an account unless such overdraft is due to the Issuing and Paying Agent's mismanagement of such account.

Section 8. Indemnification. Neither the Issuing and Paying Agent nor its officers, employees or agents shall be liable for any act or omission hereunder, except in the case of ordinary negligence or willful misconduct, in which case the Issuing and Paying Agent shall indemnify, defend and hold harmless the Authority and its officers, employees and agents from and against any liability, claim, damage cost or expense (including legal fees and expenses) related to or arising out of such ordinary negligent action or inaction or willful misconduct, except to the extent that they are caused directly by the Authority's gross negligence or willful misconduct. The Authority agrees to indemnify and hold the Issuing and Paying Agent and its officers, employees and agent harmless from and against all liabilities, claims, damages, costs and expense (including legal fees and expenses) relating to or arising out of their actions or inactions in connection with this Agreement, except to the extent they are caused by the Issuing and Paying Agent and/or its officers, employees and agent negligence or willful misconduct. This indemnity section shall survive termination of this Agreement.

Section 9. Representations and Warranties of Authority. The Authority hereby represents and warrants to the Issuing and Paying Agent that this Agreement and any

Note which the Authority shall have instructed the Issuing and Paying Agent to issue (an “Approved Note”) have been duly authorized by the Authority and this Agreement when executed and any Approved Note when issued in accordance with the Authority’s instructions will be valid and binding obligations of the Authority, enforceable in accordance with their terms. The Authority hereby represents and warrants to the Issuing and Paying Agent that the Authority has obtained all authorizations and approvals of and all registrations and filings with governmental agencies and authorities necessary for the execution, delivery and performance by the Authority of this Agreement and any Approved Note and such authorizations, approvals, registrations and filings, as the case may be, are in full force and effect; provided that, no representation is made by the Authority as to any action required under state securities or blue sky laws in connection with the purchase or distribution of any Approved Note.

Each direction given or made by an Authorized Officer to authenticate and deliver the Notes pursuant to this Agreement shall constitute a certification by the Authority that (i) the Authority has performed all of the covenants and agreements that it is required to have performed as of the date of such direction under the terms of this Agreement, and (ii) the representations and warranties contained in this Agreement remain true and accurate as of the date of such direction and apply to the Notes to which such direction applies.

Section 10. Duties of the Issuing and Paying Agent. The Issuing and Paying Agent agree to provide the Bank with read-only access to the on-line commercial paper trade reporting system of the Issuing and Paying Agent with respect to the Commercial Paper Notes and to any other electronic platform as required by a Bank to fulfill such Bank’s regulatory reporting needs with respect to the Commercial Paper Notes.

Not later than the time specified therein for the submission of demands for payments thereunder on or prior to any day on which any principal of and interest on outstanding Commercial Paper Notes is due and payable, the Issuing and Paying Agent shall submit a demand for payment under the related Subordinated Credit Support Instrument in the manner provided therein. The Issuing and Paying Agent shall apply such proceeds to the payment of the principal of and interest on Commercial Paper Notes becoming due and payable.

The Issuing and Paying Agent shall timely prepare and present to the related Subordinated Credit Provider all certificates, notices and other documents required by the terms of the Issuing and Paying Agency Agreement and the related Subordinated Credit Support Instrument to effect Draws under each Subordinated Credit Support Instrument.

The Issuing and Paying Agent shall not Draw upon a Subordinated Credit Support Instrument with respect to any payment of principal of any Commercial Paper Note which is, to the knowledge of the Issuing and Paying Agent, registered in the name of the Authority or held for its account. The Authority shall promptly notify the Issuing and Paying Agent in writing of any Commercial Paper Notes so held.

Section 11. Instruction Procedures. Except as otherwise expressly provided herein, all instructions, notices, funds transfer requests and other communications hereunder shall be in writing, personally delivered or sent by regular mail, telex, facsimile transmission or email, and shall be deemed given when received. The Issuing and Paying Agent shall have the

right to accept and act upon instructions, including funds transfer instructions (“Instructions”) given pursuant to this Issuing Paying Agent Agreement and delivered using Electronic Means. The Issuing and Paying Agent shall incur no liability to the Authority in acting hereunder upon telephonic, facsimile or other instructions contemplated hereby which the recipient thereof reasonably believed in good faith to have been given by an Authorized Representative. If a discrepancy exists with respect to the telephonic instructions as recorded and the written instructions, the written instructions will be deemed the controlling and proper instructions. It is understood that all telephonic instructions will be recorded by the Issuing and Paying Agent.

Section 12. Non-Presented Notes. Any monies held by the Issuing and Paying Agent for the Holders of matured Notes which shall remain unclaimed by such Holders for six months after the date on which such Notes shall have matured, shall be paid to the Authority upon the request of the Authority to the Issuing and Paying Agent.

Section 13. Compensation. The Authority shall pay such compensation for the Issuing and Paying Agent’s services pursuant to this Agreement as shall be set forth in a letter agreement (the “Letter Agreement”) between the Authority and the Issuing and Paying Agent, as such pricing and compensation arrangement may only be modified by the written consent of both the Authority and the Issuing and Paying Agent. The Letter Agreement is hereby incorporated and made a part of this Agreement. The Authority shall reimburse the Issuing and Paying Agent for any amounts the Issuing and Paying Agent is required to pay in connection with overdrafts in the Authority’s accounts created pursuant to this Agreement. Amounts payable to the Issuing and Paying Agent hereunder shall be paid by the Authority from moneys available therefor in accordance with the Indenture and not from moneys held under this Agreement and the Issuing and Paying Agent shall have no lien on moneys held hereunder.

Section 14. Force Majeure and Severability. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter contained herein and supersedes and cancels any and all prior agreements, representations or statements, written or oral, of either party with respect thereto. In no event shall the Issuing and Paying Agent and/or the Authority be liable for any failure or delay in the performance of the Issuing and Paying Agent’s and/or Authority’s obligations hereunder because of circumstances beyond the Issuing and Paying Agent’s and/or Authority’s control, including, but not limited to, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, strikes or work stoppage for any reason, embargo, government action, including any laws, ordinances, regulations or the like which restrict or prohibit the providing of the services contemplated by this Agreement, inability to obtain material, equipment or communications facilities, or the failure of equipment or interruption of communications facilities, and other causes whether or not of the same class or kind as specifically named above. This Agreement may not be amended except in a writing executed by the party to be bound. In the event that one or more provisions of this Agreement are held invalid, illegal or unenforceable in any respect or on the basis of any particular circumstances, the validity, legality and enforceability of such provision or provisions under other circumstances and of the remaining provisions shall not in any way be affected or impaired. No failure or delay on the part of either party in exercising any power or right under this Agreement shall operate as a waiver, nor does any single or partial exercise of any power or right preclude any other or further exercise, or the exercise of any other power or right. No

waiver by a party of any provision of this Agreement, or of any breach or default, shall be effective unless in writing and signed by the party against whom the waiver is to be enforced.

Section 15. Effectiveness and Termination. This Agreement may be terminated at any time by either party upon thirty (30) days prior written notice or upon such other later date specified in such written notice; provided, however, that such termination shall not be effective prior to the earlier of (i) the appointment of a successor Issuing and Paying Agent and the delivery of each Subordinated Credit Support Instrument to such successor Issuing and Paying Agent or (ii) the maturity of all Outstanding Notes. Upon termination the Issuing and Paying Agent shall return to the Authority each Subordinated Credit Support Instrument and any Notes then held in safekeeping by the Issuing and Paying Agent upon the Authority's instructions. No such termination shall, however, affect the Authority's or the Issuing and Paying Agent's respective responsibilities hereunder arising prior to such termination. The provisions of Sections 6 and 8 hereof shall survive the termination of this Agreement.

Section 16. Telephone Conversations. Either party hereto may electronically record any or all telephonic conversations between the parties hereto and any such tape recordings may be submitted in evidence to any court or in any legal proceeding for the purpose of establishing any matters pertinent hereunder.

Section 17. Notice: Addresses.

All communications by or on behalf of the Issuing and Paying Agent or the Authority, by telephone or otherwise, relating to the completion, authentication, delivery or payment of the Commercial Paper Note are to be directed to [_____] (or such other department or division which you shall specify in writing to Authority). The Authority will send all Commercial Paper Notes to be completed and delivered by you to your [_____] (or such other department or division as you shall specify in writing to the Authority). The Issuing and Paying Agent will advise the Authority from time to time of the individuals generally responsible for the administration of this Agreement, will from time to time certify incumbency and specimen signatures of officers or employees authorized to countersign Commercial Paper Notes and will supply a list of employees authorized to receive telephone instructions.

Notices and other communications hereunder shall (except to the extent otherwise expressly provided) be in writing and shall be addressed as follows, or to such other address as the party receiving such notice shall have previously specified to the party sending such notice:

if to the Authority, at the following address:

Public Facilities Financing Authority of the City of San Diego
c/o City of San Diego
Office of the City Clerk
202 C Street, 2nd Floor
San Diego, California 92101
Phone: (619) 553-4000
Fax: (619) 553-4045

with a copy to:

City Attorney's Office
1200 Third Avenue
San Diego, California 92101
Attention: Deputy City Attorney – Finance
Phone: (619) 236-6220
Fax: (619) 236-7215

if to the Issuing and Paying Agent, at the following addresses:

U.S. Bank National Association
100 Wall Street, 16th Floor
Attn: Corporate Trust Division
New York, New York 10005
Phone: (212) 951-8512
Fax: (212) 361-6153

Notices shall be deemed delivered when received at the address specified above. For purposes of this paragraph, “when received” shall mean actual receipt (i) of an electronic communication by a telex machine, telecopier or time-sharing terminal specified in or pursuant to this Agreement; (ii) of an oral communication by any person answering the telephone at your office and otherwise at the office of the individual or department specified in or pursuant to this Agreement; or (iii) of a written communication hand-delivered or mailed to the office specified in or pursuant to this Agreement.

Section 18. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 19. No Personal Liability. No trustee, officer or employee of the Authority shall be held personally liable on the Notes or in connection with any claim based thereon or on the Indenture or on this Agreement.

Section 20. Authority Requests for Information. The Issuing and Paying Agent shall promptly provide the Authority with information with respect to the Commercial Paper Notes requested from time to time by the Authority.

Section 21. Counterparts. This Agreement may be executed in counterparts, each of which shall be an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO**

By: _____
[Sherri S. Lightner]
Chair

ATTEST:

By: _____
Elizabeth S. Maland
Secretary

APPROVED AS TO FORM:

GENERAL COUNSEL TO THE AUTHORITY

By: _____
Brant C. Will
Deputy General Counsel

ACCEPTED AND AGREED:

U.S. BANK NATIONAL ASSOCIATION,
acting solely in its capacity as Issuing and Paying Agent

By: _____
Name:
Title:

APPENDIX A

INITIAL AUTHORIZED REPRESENTATIVES

Name and Title

Signature

APPENDIX B

DTC CERTIFICATE AGREEMENT

APPENDIX C

DTC LETTER OF REPRESENTATIONS

APPENDIX D

FORM OF MASTER NOTES

[See Exhibit A-1 to Fifth Supplemental Indenture]

APPENDIX E

FORM OF ISSUANCE REQUEST

To: U.S. Bank National Association, as Issuing and Paying Agent

Re: Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)

An Authorized City Representative of the City of San Diego (the “City”) on behalf of the Public Facilities Financing Authority of the City of San Diego (“Authority”) does hereby request U.S. Bank National Association as Issuing and Paying Agent (the “Issuing and Paying Agent”) under the Issuing and Paying Agency Agreement, dated as of January 1, 2017 (the “Agreement”) between the Authority and the Issuing and Paying Agent, to issue the Authority’s Commercial Paper Notes, as follows:

1. Series:
2. Principal Amount:
3. Rate of Interest:
4. Issue Date:
5. Maturity Date:

Upon receipt of proceeds of the Commercial Paper Notes from the [Dealer], you are hereby authorized and directed to transfer \$(aggregate principal amount of Commercial Paper Notes then to be issued) comprised of proceeds from the Commercial Paper Notes:

- a. \$(Acquisition Account amount) to the City of San Diego for deposit in the Public Facilities Financing Authority of the City of San Diego Water System Improvement Project Acquisition Account – Commercial Paper Notes; and/or
- b. \$(Cost of Issuance amount) to U.S. Bank, as Trustee, for deposit in the Public Facilities Financing Authority of the City of San Diego Water System Capital Improvement Project Costs of Issuance Account – Commercial Paper Notes.

All capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Indenture.

This Issuance Request is delivered on this __ day of __, 201__.

DEALER AGREEMENT

by and between

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

and

[DEALER]

Dated as of January 1, 2017

relating to

\$250,000,000

**Public Facilities Financing Authority of the City of San Diego
Subordinated Water Revenue Commercial Paper Notes
(Payable Solely from Subordinated Installment Payments Secured
by Net System Revenues of the Water Utility Fund)**

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DEALER AGREEMENT

This Dealer Agreement (as the same may be amended or supplemented, this “Agreement”) dated as of January 1, 2017, between the PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO (the “Authority”) and [Dealer] (the “Dealer”).

WHEREAS, the Authority has authorized the issuance and sale of the Authority’s Subordinated Water Revenue Commercial Paper Notes in one or more series (the “Commercial Paper Notes”) pursuant to an under and secured by an Indenture, dated as of January 1, 2009, by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as amended and supplemented by the First Supplemental Indenture, dated as of June 1, 2009, by the Second Supplemental Indenture, dated as of June 1, 2010, by the Third Supplemental Indenture, dated as of April 1, 2012, by the Fourth Supplemental Indenture, dated as of June 1, 2016 and the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplemental Indenture” and, collectively, the “Indenture”);

WHEREAS, in accordance with the Indenture, the aggregate principal amount of all Commercial Paper Notes outstanding at any time shall not exceed \$250,000,000;

WHEREAS, in order to effect the acquisition, construction, installation and improvements to the water system (the “Water System”) of the City of San Diego (the “City”), the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) sold components of the City’s water system improvement project to the City pursuant to an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009B Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2009, a 2010A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2010, a 2012A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2012, a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016, and a 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017 (the “2017 Commercial Paper Supplement” and collectively and as further supplemented from time to time, the “Master Installment Purchase Agreement”), each by and between the City and the Corporation, pursuant to which the Corporation has agreed to sell certain improvements and additions (comprised of various components, each, a “Component”) to the Water System and the City has agreed from time to time to purchase certain Components as specified in certain supplements to the Agreement; and

WHEREAS, further in accordance with the Indenture, the Authority entered into an Issuing and Paying Agency Agreement, dated as of January 1, 2017 (as the same may be amended, supplemented or replaced, the “Issuing and Paying Agency Agreement”) with U.S. Bank National Association, as issuing and paying agent (the “Issuing and Paying Agent”);

WHEREAS, the City will enter into a Reimbursement Agreements (collectively, the “Reimbursement Agreements”) with Bank of the West (“BOTW”) and Bank of America, N.A. (“BofA”) (each of BOTW and BofA being a “Subordinated Credit Provider” and

collectively, the “Subordinated Credit Providers”), dated as of January 1, 2017, pursuant to which the Subordinated Credit Providers have issued in favor of the Issuing and Paying Agent their respective irrevocable Letter of Credit to provide credit support for the payment of principal of and interest on a portion of the Commercial Paper Notes; and

WHEREAS, the Authority desires to appoint the Dealer under the Indenture to perform certain services as provided herein with respect to the Commercial Paper Notes designated from time to time by the Authority (the “Designated Notes”) and the Dealer is willing to do so on the terms and conditions set forth herein;

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

Section 1. Agreement to Sell Designated Notes. (a) Sale. On and after the Commencement Date (as hereinafter defined) of this Agreement, on the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, the Dealer will use its best efforts on behalf of the Authority to offer and sell the Designated Notes (subject to any limitations set forth in the Indenture and Issuing and Paying Agent Agreement); provided, however, the Dealer shall have no obligation to purchase Designated Notes for its own account from the Authority.

If, on any date, the Dealer is unable to sell Designated Notes for the purpose of refunding Commercial Paper Notes maturing on such date, the Dealer agrees to notify the Authority and the Issuing and Paying Agent of such inability by 1:00 p.m., prevailing New York City time, on such date. On any date on which the Dealer sells Designated Notes, the Dealer agrees to initiate all instructions to the Issuing and Paying Agent for issuance of all Designated Notes on that day by 1:00 p.m., prevailing New York City time.

The Dealer is authorized to directly access the system of the Issuing and Paying Agent for the purposes of transmitting requests to the Issuing and Paying Agent or obtaining reports with respect to the Designated Notes.

(b) Appointment of Dealer. The Authority hereby requests the Dealer to act, on and after the Commencement Date on the terms and conditions specified herein, as the Authority’s dealer for the offer and sale from time to time of the Designated Notes to be issued by the Authority and offered and sold in the United States commercial paper market, and the Dealer accepts such appointment and agrees so to act. The Dealer agrees to offer and sell the Designated Notes, as the Authority’s agent, to institutional investors and other entities and individuals who normally purchase commercial paper in the United States commercial paper market. The Designated Notes will be sold in minimum denominations of \$100,000 and integral multiples of \$1,000 in excess thereof, and will not mature (i) more than 270 days from the date of issuance or (ii) beyond a date which is two (2) Commercial Paper Notes Business Days prior to the Termination Date of the Subordinated Credit Support Instrument relating to such Commercial Paper Notes. The Designated Notes will be issued by the Authority either (a) as book-entry obligations represented by one or more master notes and recorded in the electronic book-entry system maintained by The Depository Trust Company or any other clearing corporation (each a “Clearing Corporation”) within the meaning of Section 8-102(a)(5) of the

Uniform Commercial Code in accordance with the terms of the letter of representations among the Authority, the Issuing and Paying Agent and the Clearing Corporation (the “Letter of Representations”), or (b) as physical certificated notes delivered to the purchaser thereof or a person designated by such purchaser.

Section 2. Representations, Warranties and Agreements of the Authority.

The Authority represents and warrants to the Dealer at the date of this Agreement, at each date upon which an agreement for the sale of the Designated Notes is made, and at each date upon which Designated Notes is, or is to be, issued, that:

(a) The Authority has full legal right, power, and authority to enter into, perform and observe the covenants and agreements contained in this Agreement, the Indenture and the Issuing and Paying Agency Agreement (this Agreement, the Indenture and the Issuing and Paying Agency Agreement, collectively, the “Transaction Documents”), to issue and sell the Designated Notes as special obligations of the Authority payable as Subordinated Bonds in accordance with the Indenture, to deliver the Designated Notes to the Dealer as provided herein, and to carry out and consummate all other transactions described in the Transaction Documents;

(b) By official action of the Authority prior to or concurrently with the acceptance hereof, the Authority has duly and validly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations contained in, the Transaction Documents and the Designated Notes; and the Transaction Documents and the Designated Notes have been duly and validly executed and delivered by the Authority and constitute valid and binding contractual obligations of the Authority;

(c) The Authority is not in breach of or default under any applicable law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, note, indenture, resolution, agreement, or other instrument, to which the Authority is a party or is otherwise subject, which would have a material and adverse effect upon the business or financial condition of the Authority; and the execution and delivery of the Transaction Documents by the Authority and compliance with the provisions of each thereof will not violate or constitute a breach of or default under any existing law, administrative regulation, judgment, decree, or any agreement or other instrument to which the Authority is a party or is otherwise subject;

(d) The Offering Memorandum, as the same may be amended or supplemented, and each update thereof, except for the information relating to the Subordinated Credit Providers and under the caption “The Letters of Credit and Reimbursement Agreements” and in Appendix B – “The Book-Entry System”, does not contain an untrue statement of a material fact or an omission of a material fact necessary to make any statement contained therein, in light of the circumstances under which such statement was made, not misleading;

(f) To the best of the actual knowledge of the Authority, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Authority in any way contesting or affecting the validity

of the Transaction Documents, or contesting the powers of the Authority to enter into or perform its obligations under the Transaction Documents;

(h) There are no consents, authorization or approvals of, or filings with, any federal or state government authority (other than the Authority) required in connection with the issuance or sale by the Authority of the Designated Notes, the execution and delivery of the Transaction Documents and the performance of its obligations thereunder except as may be required by state securities laws (as to which no representation is made) and those which have already been obtained or made;

(g) The Authority will cooperate with the Dealer in arranging for the qualification of the Designated Notes for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Dealer may designate, and will use its best efforts to continue such qualifications in effect so long as the Designated Notes are being offered by the Dealer; provided, however, that the Authority will not be required to execute a special or general consent to service of process or qualify to do business in connection with any such qualification in any jurisdiction and the Authority shall incur no cost or expense in connection with action taken under this subsection 2(k); and

(k) The Authority will furnish the Dealer with a certificate of the Authority, certifying the incumbency and specimen signature of officers of the Authority authorized to execute certificates and written instructions and deliver information required in this Agreement on behalf of the Authority.

Section 3. Offering Memorandum. (a) The Authority will make available to the Dealer and the Dealer will distribute to investors and potential investors in the Designated Notes an offering memorandum (as periodically revised as described below, the “Offering Memorandum”) containing information about the Authority, the Designated Notes, each Subordinated Credit Provider and any Subordinated Credit Support Instrument then supporting the Designated Notes and in form and content reasonably satisfactory to the Dealer. Subject to the other provisions of this Section, the Offering Memorandum will be updated by the Authority periodically as necessary to reflect material changes in the commercial paper program described in this Agreement or any credit facilities securing the Designated Notes and as necessary so that the Offering Memorandum is not materially false or misleading.

(b) After the Commencement Date, the Authority will as soon as practicable notify the Dealer by telephone (which shall promptly be confirmed in writing) of (i) any fact or occurrence as a result of which the Offering Memorandum, except for the information relating to the Subordinated Credit Providers and under the caption “The Letters of Credit and Reimbursement Agreements” and in Appendix B – “The Book-Entry System”, would contain or does contain any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading or any representation or warranty of the Authority under the Transaction Documents would become false as of the time made; (ii) any reduction, or any notice in writing to the Authority by any Rating Agency that it is considering a possible

reduction, in any existing rating of the Designated Notes; and (iii) any event of default under the Indenture or any the Subordinated Credit Support Instrument.

Section 4. Commencement Date. The Commercial Paper Dealer shall commence to perform its obligations hereunder at 9:30 a.m., prevailing New York City time, on _____, 2017 (the “Commencement Date”). At or prior to such time, the Authority will deliver the documents as required herein to the Dealer.

Section 5. Conditions. The Dealer has entered into this Agreement in reliance upon the representations and warranties of the Authority contained herein and to be contained in the documents and instruments to be delivered at the Commencement Date, and upon the performance by the Authority of its obligations hereunder, both as of the date hereof, as of the Commencement Date, and after the Commencement Date during any period of marketing or remarketing the Designated Notes (the “Relevant Times”). Accordingly, the Dealer’s obligations under this Agreement shall be subject to the performance by the Authority of its obligations to be performed hereunder and under such documents and instruments at or prior to the Commencement Date, and shall also be subject to the receipt by the Dealer of each of the following documents prior to the Commencement Date:

(i) Certified copies of the Indenture, the Issuing and Paying Agency Agreement, the Agreement, the Master Installment Purchase and each Subordinated Credit Support Instrument securing the Designated Notes;

(ii) Certified copies of the resolutions adopted by the City, the Corporation and the Authority authorizing the Fifth Supplemental Indenture, the Issuing and Paying Agency Agreement, the Agreement, the 2017 Commercial Paper Supplement and each Subordinated Credit Support Instrument, as applicable;

(iii) A copy of the opinion of Hawkins, Delafield & Wood LLP, Bond Counsel to the Authority, delivered in connection with the authorization of the Designated Notes, together with a reliance letter of Bond Counsel addressed to the Dealer;

(iv) A copy of the opinion(s) dated the Commencement Date of McGuireWoods LLP, counsel to the Subordinated Credit Provider, addressed to the Authority and the City with respect to the due authorization, validity and enforceability of the Reimbursement Agreement and the Letter of Credit and to the accuracy of the information included in the Offering Memorandum under the caption “The Letters of Credit and Reimbursement Agreements”, together with a reliance letter of such counsel addressed to the Dealer;

(v) A copy of the opinions dated the Commencement Date of the City Attorney of the City addressed to the Dealer with respect to the due authorization, validity and enforceability of the Issuing and Paying Agent Agreement, the Reimbursement Agreement, the Indenture, the Master Installment Purchase

Agreement and the Agreement by the City, the Corporation and the Authority, as applicable;

(vi) A certificate dated the Commencement Date signed by a duly authorized officer of the Authority to the effect that (A) the representations and warranties of the Authority contained herein are true and correct in all material respects on and as of the Commencement Date as if made on the Commencement Date except to the extent that the same relate to any earlier date; (B) the Offering Memorandum has been approved; and (C) no event specified in Section 3(b) has occurred as to which the Authority has not notified the Dealer;

(iii) A certificate dated the Commencement Date signed by a duly authorized officer of the Corporation with respect to the due authorization, validity and enforceability of the Master Installment Purchase Agreement by the Corporation and a certificate dated the Commencement Date signed by a duly authorized officer of the City with respect to the due authorization, validity and enforceability of the Master Installment Purchase Agreement and the Reimbursement Agreement by the City; and

(vii) Such additional legal opinions, certificates, instruments, and other documents as Bond Counsel, the Dealer or the Dealer's counsel may reasonably request to evidence the truth, accuracy, and completeness of the Authority's representations and warranties contained herein and of the statements and information provided to the Dealer and the due performance and satisfaction by the Authority, the City, the Corporation and each Subordinate Credit Provider at or prior to the Commencement Date of all agreements then to be performed and all conditions then to be satisfied by the Authority, the City, the Corporation and each Subordinate Credit Provider, as applicable.

If the Authority shall be unable to satisfy the conditions to the obligations of the Dealer contained in this Agreement, or if the obligations of the Dealer shall be terminated for any reason permitted by this Agreement, this Agreement shall terminate and neither the Dealer nor the Authority shall be under further obligation hereunder, except that the respective obligations of the Authority and the Dealer set forth in Sections 6 hereof shall continue in full force and effect.

Section 6. Compensation and Expenses. (a) As compensation to the Dealer hereunder, the Authority agrees to pay the Dealer .__% per annum, paid [quarterly] on __1, __1, ____1 and _____1 of each year, commencing on _____, 2017 in arrears, on the average daily balance of outstanding Designated Notes for such quarter. The Dealer shall invoice the Authority for such payments.

(b) The Dealer shall be under no obligation to pay, and the Authority shall pay, expenses incident to the performance of the Authority's obligations hereunder, including but not limited to the cost of preparing and printing the Designated Notes; the fees and expenses of Bond Counsel; the fees and disbursements of the Authority's accountants, advisers, and any other

experts or consultants retained by the Authority, the Corporation or the City; the cost of printing and distributing the Offering Memorandum; the fees for bond ratings; and the cost of obtaining CUSIP numbers.

(c) The Dealer shall pay all advertising expenses in connection with the offering of the Designated Notes and all other expenses incurred by it in connection with its offering and distribution of the Designated Notes, including its counsel's fees.

Section 7. Dealer May Own Designated Notes. The Dealer, in its individual capacity, either as principal or agent, may buy, sell, own, hold, and deal in any of the Designated Notes, and may join in any action which any Holder of Designated Notes may be entitled to take, with like effect as if it did not act in any capacity hereunder. The Dealer in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Authority as freely as if it did not act in any capacity hereunder.

Section 8. Amendments. The Authority agrees not to amend the Indenture or to consent to any replacement or amendment of any Subordinated Credit Support Instrument insofar as any such document relates to this Agreement or the rights and duties of the Dealer hereunder without the prior written consent of the Dealer. This Agreement may not be amended except by a writing signed by each of the parties hereto.

Section 9. Term. (a) Unless previously terminated, this Agreement shall remain in full force and effect until payment in full of the Designated Notes or until otherwise terminated in accordance herewith or with the Indenture. The Authority may terminate this Agreement at any time by giving at least thirty (30) days prior written notice to the Dealer and the Issuing and Paying Agent. The Dealer may terminate this Agreement at any time by giving at least sixty (60) days prior written notice to the Authority, the Issuing and Paying Agent. In the event of termination as provided herein, the Dealer will immediately upon the appointment of a replacement dealer as provided herein pay over, assign and deliver any moneys and obligations held by it in such capacity, and shall deliver all books and records relating thereto, to the replacement dealer, or, if there be no successor, to the Authority. The representations, warranties, and agreements of the Authority set forth herein shall, however, remain in full force and effect regardless of (i) any investigation (or any statement as to the results thereof) made by or on behalf of the Dealer and (ii) the offering and sale and any payment for any Designated Notes hereunder and shall survive the termination or expiration of this Agreement.

(b) In addition to the provisions of paragraph (a) of this Section 9, the Dealer may suspend its obligations under this Agreement at any time by notifying the Authority, the City and the Subordinated Credit Provider in writing or by facsimile or other electronic communication 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, 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 interest received on obligations of the general character of the Designated Notes;

(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 Designated Notes, as contemplated hereby, is or would be in violation of any provision of the Securities Act of 1933, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect, or purpose or effect of otherwise prohibiting the issuance, offering or sale of obligations of the general character of the Designated Notes, as contemplated hereby;

(iii) any event shall have occurred, or information become known, which, in the Dealer's reasonable opinion, causes any statement contained in the Offering Memorandum to be materially misleading or results in a failure of the Offering Memorandum to state a material fact necessary in order to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading and the Authority and the City shall fail to amend or supplement the Offering Memorandum so that, as so amended or supplemented, the Offering Memorandum does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made in the light of the circumstances in which they were made, not misleading;

(iv) 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 or the State of California, or a decision by any court of competent jurisdiction within the United States or the State of California shall be rendered which, in the Dealer's reasonable opinion, materially adversely affects the marketability of the Designated Notes;

(v) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which, in the Dealer's reasonable opinion, materially adversely affects the marketability of the Designated Notes;

(vi) any governmental authority shall impose, as to the Notes, or obligations of the general character of the Notes, any material restrictions not now in force, or increase materially those now in force which, in the Dealer's reasonable opinion, materially adversely affects the marketability of the Designated Notes;

(vii) a general banking moratorium shall have been established by United States, California or New York authorities; or

(viii) 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 effective operation of government or the financial community shall have occurred, which, in the Dealer's reasonable opinion, materially adversely affects the marketability of the Designated Notes.

Section 10. Notices. Unless otherwise provided herein, all notices, certificates, requests, or other communications hereunder shall be deemed given when delivered in writing by hand or sent by facsimile transmission, tested telex, or registered mail, postage prepaid, addressed as follows:

If to the Authority:

Public Facilities Financing Authority of the City of San Diego
c/o City of San Diego
Office of the City Clerk
202 C Street, 2nd Floor
San Diego, California 92101
Phone: (619) 553-4000
Fax: (619) 553-4045

with a copy to:

City Attorney's Office
1200 Third Avenue
San Diego, California 92101
Attention: Deputy City Attorney – Finance
Phone: (619) 236-6220
Fax: (619) 236-7215

If to the Dealer:

If to the Issuing and Paying Agent/Registrar:

U.S. Bank National Association
100 Wall Street, 16th Floor
Attn: Corporate Trust Division
New York, New York 10005
Phone: (212) 951-8512
Fax: (212) 361-6153

Each of the above parties may, by written notice given hereunder to the others, designate any further or different address to which, or means by which, subsequent notices, certificates, requests, or other communication shall be sent.

Section 11. No Advisory or Fiduciary Role. The Authority acknowledges and agrees that (a) the transactions contemplated by this Agreement are arm's-length commercial transactions between the Authority and the Dealer; (b) the Dealer is acting solely as a co-Dealer for the Commercial Paper Notes and as a principal in connection with the matters contemplated by and all communications under this Agreement, and is not acting as the agent or fiduciary or Municipal Advisor (as defined in Section 15B of the Securities and Exchange Act of 1934) of the Authority and its advisors in connection with the matters contemplated by this Agreement; (c) the Dealer has financial and other interests that differ from those of the Authority; (d) the

only obligations the Dealer has to the Authority are set forth in this Agreement; and (e) the Authority has consulted its own municipal, legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate.

Section 12. Governing Law. This Agreement shall be construed under and enforced in accordance with the laws of the State of California.

Section 13. Effective Date. Subject to the next succeeding sentence, this Agreement shall become effective upon the execution of the acceptance hereof by an Authority Representative and shall be valid and enforceable as of the time of such acceptance, provided that the Dealer shall commence to perform its obligations hereunder upon the Commencement Date.

Section 14. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

Section 15. Miscellaneous.

(a) The Authority acknowledges and agrees that the Dealer shall have no obligation under this Agreement to provide any services, provide any advice or take any other action to the extent that the Dealer determines, in its sole discretion, would cause the Dealer to be considered a “municipal advisor” as defined under Section 15B of the Securities Exchange Act of 1934, as amended, and SEC Rule 15Ba1-1.

(b) This Agreement shall inure to the benefit of and be binding only upon the parties hereto and their respective successors and assigns. The terms “successors” and “assigns” shall not include any purchaser of any of the Designated Notes merely because of such purchase. No Holder or other third party shall have any rights or privileges hereunder.

(c) [FOR BAML Dealer Agreement] The Authority and the Dealer hereby agree that the Dealer may, without notice to the Authority, assign its rights and obligations under this Agreement to any other wholly-owned subsidiary of Bank of America Corporation to which all or substantially all of the Dealer’s municipal markets business may be transferred following the date of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

[DEALER]

By: _____

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN DIEGO

By: _____

[Sherri S. Lightner]
Chair

ATTEST:

By: _____

Elizabeth S. Maland
Secretary

APPROVED AS TO FORM:

GENERAL COUNSEL TO THE AUTHORITY

By _____

Brant C. Will
Deputy General Counsel

REIMBURSEMENT AGREEMENT

between

THE CITY OF SAN DIEGO

and

BANK OF THE WEST

dated as of January 1, 2017

Relating to

\$75,000,000

Public Facilities Financing Authority of the City of San Diego
Subordinated Water Revenue Commercial Paper Notes, Series A
(Payable Solely from Subordinated Installment Payments Secured
by Net System Revenues of the Water Utility Fund)

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REIMBURSEMENT AGREEMENT

THIS REIMBURSEMENT AGREEMENT dated as of January 1, 2017 (as amended, modified and supplemented, the “Reimbursement Agreement”), is by and between THE CITY OF SAN DIEGO, a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California (the “City”), and BANK OF THE WEST (the “Bank”).

WITNESSETH

WHEREAS, the Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers authority duly organizing and existing under the laws of the State of California (the “Authority”) intends to issue its Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Commercial Paper Notes”) which may be issued from time to time in an aggregate principal amount of up to \$75,000,000 for purposes as permitted by the Indenture hereinafter mentioned including [_____];

WHEREAS, the Commercial Paper Notes will be issued from time to time pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 et seq. of the Government Code of the State, as amended (the “Act”), and the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplemental Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), amending that certain Indenture, dated as of January 1, 2009, as supplemented and amended by that certain First Supplemental Indenture, dated as of June 1, 2009, that certain Second Supplemental Indenture, dated as of June 1, 2010, that certain Third Supplemental Indenture, dated as of April 1, 2012, and that certain Fourth Supplemental Indenture, dated as of June 1, 2016, each by and between the Authority and the Trustee;

WHEREAS, in order to support the payment of the Commercial Paper Notes as the same shall become due and payable pursuant to the provisions of the Indenture, the City has requested that the Bank issue in favor of the Issuing and Paying Agent (as hereinafter defined), for the account of the City and for the benefit of the holders from time to time of the Commercial Paper Notes, an irrevocable transferable letter of credit substantially in the form attached hereto as Exhibit A in the initial stated amount of \$[Stated Amount] (as completed, executed and issued, the “Letter of Credit”);

WHEREAS, in order to induce the Bank to issue the Letter of Credit, the City has agreed to reimburse the Bank for all amounts advanced by it under the Letter of Credit and to pay interest on such amounts as well as certain costs, fees and expenses, all as provided herein;

NOW, THEREFORE, in consideration of the foregoing recitals and the covenants contained herein, and in order to induce the Bank to issue the Letter of Credit, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. For purposes of this Reimbursement Agreement, capitalized terms used herein which are not defined herein shall have the meanings set forth in the Indenture. In addition, the following terms shall have the following meanings:

“Act” has the meaning set forth in the recitals hereto.

“Agreement” means the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as supplemented by a 2009 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009B Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2009, a 2010A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2010, a 2012A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2012, a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016, each by and between the City and the Corporation and the 2017 Commercial Paper Supplement, and as further amended and supplemented from time to time in accordance with the terms thereof.

“Alternate Subordinated Credit Support Instrument” means a policy of insurance, a letter of credit, a standby bond purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Subordinated Credit Provider provides credit support or liquidity with respect to the payment of principal of and interest on the Commercial Paper Notes when the same become due and payable during the term thereof and is issued in substitution for the Letter of Credit in accordance with, and pursuant to, Section 6.5 hereof, as amended or supplemented from time to time.

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower from time to time concerning or relating to bribery or corruption.

“Assignment Agreement” means that certain Assignment Agreement, dated as of January 1, 2017, by and between the Corporation and the Authority, as amended and supplemented from time to time in accordance with the terms thereof.

“Authority Letter of Representations” means the Letter of Representations of the Authority, substantially in the form attached hereto as Exhibit C.

“Bank” is defined in the introductory paragraph hereof.

“Bank Agreement” means any credit agreement, liquidity agreement, standby bond purchase agreement, reimbursement agreement, direct purchase agreement, bond purchase agreement, or other agreement or instrument (or any amendment, supplement or other modification thereof) under which, directly or indirectly, any Person or Persons undertake(s) to make or provide funds to make payment of, or to purchase or provide credit enhancement for, bonds or notes or commercial paper of the City or the Authority secured by or payable from Net System Revenues.

“Bank Documents” means (a) the Letter of Credit, (b) this Reimbursement Agreement, (c) the Fee Letter, and (d) the Bank Note, each as amended from time to time in accordance with their respective terms.

“Bank Loan” has the meaning set forth in Section 2.11(a) hereof.

“Bank Note” has the meaning set forth in Section 2.16 hereof.

“Bank Rate” means (a) with respect to an Unreimbursed Amount, on any particular date that is less than 90 days following the date on which the Drawing relating to such Unreimbursed Amount was made, a rate of interest calculated with respect to such Unreimbursed Amount equal to the Base Rate in effect for such date, (b) with respect to an Unreimbursed Amount, on any particular date that is more than 90 days following the date on which the Drawing relating to such Unreimbursed Amount was made and less than 180 days following the date on which the Drawing relating to such Unreimbursed Amount was made, a rate of interest calculated with respect to such Unreimbursed Amount equal to the Base Rate in effect for such date plus 0.50% per annum or (c) with respect to a Bank Loan and on any particular date that is more than 180 days following the date on which the Drawing relating to such Bank Loan was made, a rate of interest calculated with respect to such Bank Loan equal to the Base Rate in effect for such date plus 1% per annum; *provided, however*, that immediately and upon the occurrence of an Event of Default (and without any notice given with respect thereto) and during the continuation of such Event of Default, “Bank Rate” shall mean the Default Rate.

“Base Rate” means, for any day, a fluctuating rate of interest per annum equal to the greatest of (a) the Prime Rate in effect at such time plus one percent (1.00%), (b) the Federal Funds Rate in effect at such time plus two percent (2.00%), and (c) seven percent (7.00%).

“Bond Counsel” means (i) Hawkins Delafield & Wood LLP or (ii) another attorney or firm of attorneys nationally recognized in the area of municipal bonds selected by the City.

“Business Day” means any day of the year on which banks in New York, New York or the city where the presentation office of the Bank at which Drawings are presented is located are not required or authorized to remain closed and on which the Issuing and Paying Agent, the Bank, the New York Stock Exchange, Inc. and the Federal Reserve Bank are open.

“CAFR” has the meaning set forth in Section 5.2(a) hereof.

“Change in Law” has the meaning set forth in Section 2.12(a) hereof.

“Charter” means the charter of the City as it now exists or may hereafter be amended, and any new or successor charter.

“City” is defined in the introductory paragraph hereof.

“City Documents” means (a) the Agreement, (b) this Reimbursement Agreement, (c) the Fee Letter, and (d) the Bank Note, each as amended from time to time in accordance with their respective terms.

“Closing Date” means the date on which the Letter of Credit is issued.

“Code” means the Internal Revenue Code of 1986, as amended, and any successor statute thereto.

“Corporation” means the San Diego Facilities and Equipment Leasing Corporation, a nonprofit public benefit corporation organized and existing under and by virtue of the laws of the State.

“Commercial Paper Documents” means (a) the Relevant Indenture Provisions, (b) the Agreement, (c) the Assignment Agreement, (d) the Issuing and Paying Agency Agreement, (e) the Dealer Agreements, (f) the Commercial Paper Notes, (g) this Reimbursement Agreement, (h) the Fee Letter and (i) the Bank Note, each as amended from time to time in accordance with their respective terms.

“Corporation Letter of Representations” means the Letter of Representations of the Corporation, substantially in the form attached hereto as Exhibit D.

“Dealer” means a Person performing the functions of a commercial paper note dealer pursuant to a Dealer Agreement.

“Dealer Agreement” means an agreement between the Authority and a commercial paper note dealer relating to the sale of the Commercial Paper Notes, as amended and supplemented from time to time in accordance with the terms thereof.

“Default” means an event that with the giving of notice or passage of time, or both, shall constitute an Event of Default

“Default Rate” means, for any day, a rate of interest per annum equal to the sum of the Base Rate in effect on such day plus three percent (3.00%).

“Designated Jurisdiction” means any country or territory to the extent that such country or territory itself is the subject of any Sanction.

“Dodd-Frank Act” shall mean the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as enacted by the United States Congress, and signed into law on July 21, 2010, and all statutes, rules, guidelines or directives promulgated thereunder.

“Drawing” shall mean a drawing under the Letter of Credit in accordance with its terms to pay the principal of and interest on the Commercial Paper Notes.

“EMMA” means the Electronic Municipal Market Access system and any successor thereto.

“Environmental Laws” means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum

products, chemicals or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes or the clean up or other remediation thereof.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

“Event of Default” shall have the meaning set forth in Section 7.1 hereof.

“Excluded Taxes” means any taxes measured by or based upon the overall net income of the Bank or any Participant and any franchise taxes or branch profits taxes imposed on the Bank or any Participant as a result of a present or future connection between the jurisdiction of the Governmental Authority imposing such tax and the Bank or such Participant.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; *provided* that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Bank on such day on such transactions as determined by the Bank.

“Fee Letter” means that certain Fee Agreement, dated January [], 2017, by and between the City and the Bank, as amended and supplemented from time to time in accordance with the terms thereof.

“Fifth Supplemental Indenture” means that certain Fifth Supplemental Indenture, dated as of January 1, 2017, by and between the Authority and the Trustee.

“Final Drawing” means a Drawing honored by the Bank under the Letter of Credit in connection with a Final Drawing Notice.

“Final Drawing Notice” shall mean a Final Drawing Notice in the form of the certificate attached to the Letter of Credit as Annex [H].

“Fiscal Year” means the twelve month period commencing on July 1 of a calendar year and ending on June 30 of the following calendar year.

“Fitch” means Fitch Ratings, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“GAAP” means generally accepted accounting principles in the United States as in effect from time to time, applied on a basis consistent with those used in preparation of the audit report referred to in Section 5.2 hereof.

“Governmental Authority” means any federal, state or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, administrative, public or statutory instrumentality, authority, body, agency, commission, bureau or other entity exercising executive, legislative, judicial, taxing, regulatory, fiscal, monetary or administrative powers or functions of or pertaining to government (including any zoning authority, the Federal Deposit Insurance Corporation or the Federal Reserve Board, any central bank or any comparable authority), or any arbitrator with authority to bind a party at law.

“Governmental Requirements” shall mean any law, ordinance, order, rule or regulation enacted, issued or promulgated by a Governmental Authority.

“Holders” shall mean the Holders of Commercial Paper Notes.

“Indemnitees” has the meaning given to that term in Section 8.3(a) hereof.

“Indenture” means that certain Indenture, dated as of January 1, 2009, as supplemented and amended by that certain First Supplemental Indenture, dated as of June 1, 2009, that certain Second Supplemental Indenture, dated as of June 1, 2010, that certain Third Supplemental Indenture, dated as of April 1, 2012, that certain Fourth Supplemental Indenture, dated as of June 1, 2016, each by and between the Authority and the Trustee, and the Fifth Supplemental Indenture, and as further amended and supplemented from time to time in accordance with the terms thereof.

“Initial Stated Amount” has the meaning set forth in Section 2.1(a) hereof.

“Installment Payments” means the Installment Payments scheduled to be paid by the City under and pursuant to the Agreement and any Supplement.

“Interest Component” has the meaning set forth in the Letter of Credit.

“Issuing and Paying Agent” means the Person performing the functions of issuing and paying agent pursuant to the Issuing and Paying Agency Agreement and any successor thereto as shall be appointed pursuant to the Issuing and Paying Agency Agreement.

“Issuing and Paying Agency Agreement” means an agreement between the Authority and an issuing and paying agent relating to the issuance and payment of the Commercial Paper Notes, as amended and supplemented from time to time in accordance with the terms thereof.

“Legal Action” has the meaning given to that term in Section 4.3 of this Reimbursement Agreement.

“Legal Requirements” means, as to any Person, (a) all decisions, statutes, ordinances, rulings, directions, rules, regulations, orders, writs, decrees, injunctions, permits, certificates or

other requirements of any court or other Governmental Authority in any way applicable to or affecting such Person, such Person's assets, such Person's business and operations or any transaction to which such Person is a party, as the case may be, (b) all governance documents applicable to such Person, including, without limitation, charters, codes, rules, regulations, bylaws, articles of incorporation, and partnership, limited partnership, joint venture, trust, or other forms of business association agreement, and (c) all other written contractual obligations of any nature applicable to or affecting such Person, such Person's assets or such Person's business and operations.

"Letter of Credit" has the meaning set forth in the recitals hereto.

"Lien" means any mortgage, deed of trust, lien, security interest, assignment, pledge, charge, hypothecation or encumbrance of any kind in respect of any Property, including the interests of a vendor or lessor under any conditional sale or other title retention arrangement.

"Liquidity Period End Date" has the meaning set forth in Section 2.11(a) hereof.

"Losses" shall mean liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses and disbursements (including, without limitation, reasonable attorneys' fees and expenses).

"Material Adverse Effect" means (a) a material adverse effect on the properties, assets, condition (financial or otherwise), results of operations or business prospects of the Water System or the conduct of the Water Service taken as a whole, (b) a material adverse effect upon the City's ability to timely perform its obligations under the Commercial Paper Documents to which it is a party and/or (c) a material adverse effect upon the Bank's rights and remedies under the Bank Documents.

"Maturity Date" shall mean, with respect to any Bank Loan, the earliest to occur of: (i) the fifth (5th) anniversary of the date of the Drawing relating to such Bank Loan, (ii) the date on which an Alternate Subordinated Credit Support Instrument becomes effective in substitution of the Letter of Credit, (iii) the date on which the Stated Amount is permanently reduced to zero or the Letter of Credit is otherwise terminated (other than as a result of the Letter of Credit expiring on the Stated Expiration Date), including as a result of an Event of Default or (iv) the Business Day on which commercial paper notes or bonds are sold to fund the repayment in full of any Bank Loan.

"Maximum Rate" means the lesser of (a) 11% per annum, and (b) the maximum non-usurious lawful rate of interest permitted by applicable law.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Net System Revenues" has the meaning given to that term in the Agreement.

“Notice of No Issuance” shall mean a Notice of No Issuance in the form of the certificate attached [to the Letter of Credit as Annex [F]] / [to this Agreement as Exhibit []]¹.

“Obligations” has the meaning given to that term in the Agreement.

“Offering Memorandum” shall mean the offering memorandum relating to the issuance and sale of the Commercial Paper Notes, including any supplement or amendment to such offering memorandum.

“Other Taxes” has the meaning set forth in Section 5.12(b) hereof.

“Outstanding” has the meaning set forth in the Indenture.

“Parity Installment Obligation” has the meaning given to that term in the Agreement.

“Parity Obligations” has the meaning given to that term in the Agreement.

“Participant” means any financial institution or other Person now or hereafter directly or indirectly participating in the rights and obligations of the Bank pursuant to Section 8.17 hereof.

“Payment Obligations” means any and all obligations of the City to pay or reimburse the Bank contained in or evidenced by any City Document, including, without limitation, obligations to reimburse the Bank for all Drawings under the Letter of Credit, all obligations to repay the Bank for any Unreimbursed Amount and any Bank Loan, including all interest accrued thereon, all amounts owing under the Bank Note, the fees relating to the Letter of Credit and all other obligations of the City to the Bank arising under, or in relation to, or evidenced by, this Reimbursement Agreement, the Fee Letter and the Bank Note.

“Permitted Parity Obligations” means Obligations of the City payable from or secured by a lien on Net System Revenues that is on parity in right of payment to Parity Obligations permitted to be issued or created pursuant to Section 5.03(c) of the Agreement.

“Permitted Subordinated Obligations” means Obligations of the City payable from or secured by a lien on Net System Revenues that is subordinated in right of payment to Parity Obligations permitted to be issued or created pursuant to Section 5.03(f) of the Agreement.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

“Plan” means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code.

“Prime Rate” means the rate of interest announced by the Bank from time to time as its prime commercial rate or equivalent, as in effect on such day for United States dollar loans, with any change in the Prime Rate resulting from a change in said prime commercial rate to be

¹ To be decided by Bank’s letter of credit department.

automatically and immediately effective as of the date of the relevant change in said prime commercial rate, it being understood that such rate may not be the Bank's best or lowest rate.

"Principal Component" has the meaning set forth in the Letter of Credit.

"Project" shall mean the projects financed with the proceeds of the Commercial Paper Notes.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, whether now owned or hereafter acquired.

"Quarterly Payment Date" shall mean each [] 1, [] 1, [] 1 and [] 1.

"Rating Agencies" means Fitch and Moody's.

"Reimbursement Account" means the City of San Diego Commercial Paper Reimbursement Account created and held by the Issuing and Paying Agent pursuant to the Issuing and Paying Agency Agreement.

"Reimbursement Agreement" has the meaning set forth in the preamble and includes all of the Exhibits attached hereto, all of which are incorporated herein by this reference and made a part hereof.

"Relevant Indenture Provisions" means the provisions of Articles V, VI, IX, X and XVII of the Indenture and any other provisions of the Indenture applicable to the Commercial Paper Notes.

"Rescission of Notice of No Issuance" means a Rescission of Notice of No Issuance in substantially the form of the certificate attached [to the Letter of Credit as Annex [G]] / [to this Agreement as Exhibit []]².

"Sanctions" means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State.

"State" means the State of California.

"Stated Amount" shall mean the amount set forth in the Letter of Credit as the "Stated Amount," as such amount is reduced and reinstated from time to time in accordance with the terms of the Letter of Credit.

"Stated Expiration Date" has the meaning set forth in the Letter of Credit.

"Subordinated Credit Provider" has the meaning given to that term in the Agreement.

² To be decided by Bank's letter of credit department.

“Subordinated Credit Provider Reimbursement Obligations” has the meaning given to that term in the Agreement.

“Subordinated Credit Support Instrument” has the meaning given to that term in the Agreement.

“Subordinated Obligation Rating” shall mean the long-term unenhanced, unsecured debt ratings assigned by the Rating Agencies to any Subordinated Obligations.

“Subordinated Obligations” has the meaning given to that term in the Agreement.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“System Revenues” has the meaning set forth in the Agreement.

“Taxes” has the meaning set forth in Section 5.12(a) hereof.

“Termination Date” means the earlier of (a) the Stated Expiration Date of the Letter of Credit or (b) the date on which the Letter of Credit shall terminate pursuant to its terms or otherwise be terminated prior to the Stated Expiration Date.

“Trustee” means U.S. Bank National Association, as trustee pursuant to the Indenture, its successors and assigns, and any successor trustee appointed thereunder.

“2017 Commercial Paper Supplement” means that certain 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017, by and between the City and the Corporation.

“Unreimbursed Amount” shall mean with respect to the Letter of Credit, the amount of each Drawing on the Letter of Credit for which the Bank has not been reimbursed by or on behalf of the City, but not including the outstanding balance of all Bank Loans owing to the Bank.

“Water Service” has the meaning given to that term in the Agreement.

“Water System” has the meaning given to that term in the Agreement.

“Water Utility Fund” has the meaning given to that term in the Agreement.

Section 1.2. Accounting Terms. As used herein, all accounting terms not otherwise defined shall have the meanings assigned to them under GAAP.

Section 1.3. Terminology. References to “Articles,” “Sections,” “Subsections,” “Recitals,” and “Exhibits” shall be to articles, sections, subsections, recitals, and exhibits of this Reimbursement Agreement unless otherwise specifically provided. Any of the terms defined in this Reimbursement Agreement may be used in singular or plural form. As used herein, the singular includes the plural, and the masculine gender includes the feminine and neutral genders, and vice versa, unless the context clearly requires otherwise.

ARTICLE II

LETTER OF CREDIT; FEES

Section 2.1. Amount and Terms of Letter of Credit.

(a) The Bank agrees, on the terms and subject to the conditions hereinafter set forth and relying upon the representations and warranties set forth herein or incorporated herein by reference, to issue the Letter of Credit in an initial stated amount equal to \$[Stated Amount] (the “Initial Stated Amount”), representing the maximum principal amount of the Commercial Paper Notes in the amount of \$75,000,000 and interest thereon computed on the basis of an assumed interest rate of 10% per annum for a period of 120 days and a year of 365 days. The Letter of Credit shall be issued to the Issuing and Paying Agent on the Closing Date for the account of the City.

(b) The Stated Expiration Date for the Letter of Credit is set forth in the Letter of Credit; provided that such date shall be subject to extension upon the request of the City and with the written consent of the Bank in its sole discretion. Any request made by the City shall be made by written notice to the Bank no sooner than one hundred eighty (180) days prior to the then existing Stated Expiration Date and the Bank shall consent to or deny the request for extension within forty-five (45) days following its receipt of the City’s request for extension. If for any reason the Bank fails to consent to or deny the City’s request for an extension or fails to respond to the City’s request for an extension, the request shall be deemed to be denied by the Bank.

Section 2.2. Fees. The City shall pay to the Bank fees and expenses in the amounts and on the dates and at the times set forth in the Fee Letter. Any reference herein or in any other document to fees and/or other amounts or obligations payable hereunder shall include, without limitation, all fees and other amounts or obligations payable pursuant to the Fee Letter. The terms of the Fee Letter are hereby incorporated herein by reference as if fully set forth herein. All fees paid under this Reimbursement Agreement and the Fee Letter will be fully earned when due and nonrefundable when paid.

Section 2.3. Expenses. The City shall pay to the Bank within thirty (30) days of demand by the Bank, all reasonable costs, charges, fees and expenses of the Bank (including, without limitation, taxes, if any, and the reasonable fees and expenses of counsel for the Bank as provided herein and in the Fee Letter) in connection with this Reimbursement Agreement, the Letter of Credit and the transactions contemplated hereby and thereby, including, without limitation, any such costs, charges, fees and expenses incurred in connection with: (a) the preparation and negotiation of this Reimbursement Agreement, any other Commercial Paper Documents or the Letter of Credit; (b) the closing of the transactions contemplated by this Reimbursement Agreement and the issuance of the Letter of Credit; (c) any amendment, waiver, consent or modification of, or with respect to, this Reimbursement Agreement, any other Commercial Paper Document or the Letter of Credit; (d) the perfection, protection, exercise or enforcement of any of the Bank's rights under this Reimbursement Agreement, any other Commercial Paper Document or the Letter of Credit; (e) any certificates required by the Bank from insurance specialists and other professionals; (f) any action or proceeding relating to a court order, injunction, or other process or decree restraining or seeking to restrain the Bank from paying any amount under the Letter of Credit; or (g) enforcement by the Bank of any obligations of, or in collecting any payments due from, the City hereunder, under any other Commercial Paper Document, under the Letter of Credit or in connection with any refinancing or restructuring of the credit arrangements provided under this Reimbursement Agreement in the nature of a "work out" or of any insolvency or bankruptcy proceedings. The obligation of the City to pay all reasonable costs and expenses of the Bank shall continue notwithstanding any failure to satisfy the conditions of Article III hereof and shall survive the termination of the Letter of Credit and this Reimbursement Agreement. Except with respect to clause (g) above, the Bank will furnish to the City upon request an itemized statement of all costs, charges, fees and expenses demanded by the Bank under this Section.

Section 2.4. Reduction and Reinstatement of the Stated Amount of the Letter of Credit. The Stated Amount of the Letter of Credit shall be reduced and reinstated as set forth in the Letter of Credit. The City hereby irrevocably approves of reductions and reinstatements set forth in the Letter of Credit. Notwithstanding the foregoing and anything set forth herein to the contrary, the City agrees not to permanently reduce the Initial Stated Amount of the Letter of Credit except in accordance with the terms of the Commercial Paper Documents.

Section 2.5. Drawings under the Letter of Credit. The Issuing and Paying Agent is authorized to make Drawings under the Letter of Credit in accordance with its terms. If demand for payment under the Letter of Credit is properly presented as provided therein and in strict conformity with the requirements thereof, payment shall be made by the Bank, and the City hereby directs the Bank to make such payments, to the Issuing and Paying Agent, in immediately available funds, at such times as provided in and in accordance with the provisions of the Letter of Credit. All payments made by the Bank under the Letter of Credit shall be made with the Bank's own funds.

Section 2.6. Manner and Time of Payment³. Except as otherwise expressly provided herein, all payments to the Bank by the City under this Reimbursement Agreement, the Fee Letter and the Bank Note shall be made to the Bank in immediately available funds by wire

³ Times to be confirmed by Bank's operations area.

transfer to the account designated for that purpose pursuant to Section 8.1 hereof not later than [4:00 p.m.] New York City time ([1:00 p.m. San Diego time]) on the date such payment is due. Funds received after such time shall be deemed to have been paid and received on the next succeeding Business Day and amounts not received on or before 4:00 p.m. New York City time (1:00 p.m. San Diego time) on the date due shall bear interest at the Default Rate. All amounts payable to the Bank by the City hereunder, under the Fee Letter or under the Bank Note shall be paid without demand, presentment or notice of any kind on the date due, provided, that payments to be made under (a) Sections 2.3 and 8.3 hereof shall be payable only upon written demand therefor by the Bank and shall be due thirty (30) days after receipt of notice by the City of such demand and (b) Sections 2.12 and 5.12 hereof shall be due and payable as provided respectively therein.

Section 2.7. Payment Due on Non-Business Day to Be Made on Next Business Day. If any sum becomes payable pursuant to this Reimbursement Agreement or the Fee Letter on a day which is not a Business Day, the date for payment thereof shall be extended, without penalty, to the next succeeding Business Day, and such extended time shall be included in the computation of interest and fees.

Section 2.8. Late Payments. If the principal amount of any Payment Obligation is not paid when due, or upon the occurrence and during the continuance of any Event of Default, all Payment Obligations shall bear interest until paid in full at a rate per annum equal to the Default Rate from time to time in effect, payable on demand.

Section 2.9. Replacement of Letter of Credit. Notwithstanding any provisions of this Reimbursement Agreement to the contrary, the City agrees not to replace the Letter of Credit prior to the Stated Expiration Date, except upon (i) the payment by the City to the Bank of any fee, including any termination fee, required by the terms of this Reimbursement Agreement or the Fee Letter, (ii) the payment to the Bank of all other Payment Obligations payable hereunder, and (iii) the City providing the Bank and the Issuing and Paying Agent with fifteen (15) days prior written notice of its intent to replace the Letter of Credit. Any such replacement of the Letter of Credit shall be in compliance with the terms and conditions of the Indenture and the Issuing and Paying Agency Agreement. The City agrees that any replacement of the Letter of Credit as a result of the provision of any Alternate Subordinated Credit Support Instrument will require, as a condition thereto, that the City or the issuer of any Alternate Subordinated Credit Support Instrument will provide funds on the date of such replacement, which funds will be sufficient to pay in full at the time of replacement of the Letter of Credit all Payment Obligations due and owing to the Bank hereunder.

Section 2.10. Interest on Unreimbursed Amounts and Bank Loans.

(a) Interest⁴. The City hereby agrees to pay interest (i) on Unreimbursed Amounts that are repaid in full prior to [4:00 p.m.] New York City time ([1:00 p.m.] San Diego time) on the date which is the one hundred eightieth (180th) day immediately succeeding the date on which the Drawing relating to such Unreimbursed Amount was made at the Bank Rate from time to time in effect, (ii) on Unreimbursed Amounts that do not become Bank Loans and that are not

⁴ Note to draft: Times to be confirmed by Bank's operations area.

paid when due at the Default Rate from time to time in effect, and (iii) on Bank Loans at the Bank Rate from time to time in effect from and after the date of payment of the related Drawing until paid in full. If any Unreimbursed Amount is repaid at or prior to 4:00 p.m. New York City time (1:00 p.m. San Diego time) on the same day on which the related Drawing is paid, no interest shall be payable on such Unreimbursed Amount.

(b) Payment of Interest. (i) Interest on Unreimbursed Amounts (A) at the rate specified in Section 2.10(a)(i) hereof shall be payable on each Quarterly Payment Date and the date of the payment in full of such Unreimbursed Amount and (B) at the rate specified in Section 2.10(a)(ii) hereof shall be payable on demand, (ii) interest on Bank Loans at the rate specified in Section 2.10(a)(iii) shall be payable quarterly in arrears on each Quarterly Payment Date until the Maturity Date and on the Termination Date and (iii) with respect to accrued interest on an amount to be prepaid by the City pursuant to Section 2.11(c) below, on the date of prepayment of such amount.

(c) Computation of Interest. All interest payable hereunder shall be computed on the basis of a 365-day year, and all fees and other amounts due and owing the Bank hereunder and under the Fee Letter shall be computed on the basis of a 365/366-day year, and, in each case, on the actual number of days elapsed in the period during which such interest or fee or other amounts due and owing hereunder and under the Fee Letter accrues as specifically provided herein or therein, on any amount outstanding hereunder or thereunder, the first date from which interest is stated to accrue hereunder shall be included and the date of payment of such amount to the Bank shall be excluded. Due but unpaid interest shall be compounded monthly and, to the extent permitted by law, shall bear interest at the Default Rate per annum from and after compounding until paid in full.

Section 2.11. Payment of Unreimbursed Amounts.

(a) Maturity Date of Unreimbursed Amount. The Unreimbursed Amount with respect to each Drawing shall be due and payable by the City by 4:00 p.m. New York City time (1:00 p.m. San Diego time) on the one hundred eightieth (180th) day immediately succeeding the date such Drawing was made (the "Liquidity Period End Date"); provided, that in the event that the conditions set forth in Section 3.2 hereof are satisfied on the Liquidity Period End Date, the Unreimbursed Amount of such Drawing will be converted automatically to a term loan (each a "Bank Loan") from the Bank to the City. Each Bank Loan shall be due and payable as provided in Sections 2.10 and 2.11 hereof, but in no event later than the applicable Maturity Date.

(b) Payment of Bank Loans. With respect to each Bank Loan, the City hereby agrees to pay the amount of such Bank Loan to the Bank in equal quarterly installments, such payments (together with the payment of interest accrued pursuant to Section 2.10) to be made on each Quarterly Payment Date commencing with the first Quarterly Payment Date following the date of the Drawing to which such Bank Loan relates until paid in full with the final principal installment in an amount equal to the entire then outstanding principal amount of such Bank Loan being due and payable on the related Maturity Date.

(c) Prepayment. The City may prepay each Unreimbursed Amount or Bank Loan, in whole or in part [in an amount not less than \$[●] and increments of \$[●] in excess thereof], at

any time; provided, that such prepayment is accompanied by all interest accrued thereon. In the event that the Issuing and Paying Agent issues any Commercial Paper Notes while any Unreimbursed Amounts or Bank Loans remains unpaid, the City shall apply the proceeds of any such Commercial Paper Notes to the prepayment of such outstanding Unreimbursed Amounts and/or Bank Loans and such prepayment shall be applied first against Bank Loans in the order in which each such Bank Loan was made and second against Unreimbursed Amount in the order in which each such Unreimbursed Amount arose.

(d) Bank Rate Interest. The City hereby agrees to pay interest at the Bank Rate from time to time in effect on any and all amounts required to be paid under this Section 2.11 until paid in full.

Section 2.12. Increased Costs.

(a) If the Bank or any Participant shall have reasonably determined that the adoption or implementation of, or any change in, any law, rule, treaty or regulation, or any policy, guideline or directive of, or any change in the interpretation or administration thereof by any court, central bank or other administrative or Governmental Authority (in each case, whether or not having the force of law) in each case occurring after the Closing Date, or compliance by the Bank or any Participant with any request, guideline or directive of any such court, central bank or other administrative or Governmental Authority (whether or not having the force of law) (each a "Change in Law"), shall (i) subject the Bank or any Participant to any tax, charge, fee, deduction or withholding of any kind with respect to its loans, loan principal, commitments, letters of credit or other obligations, or its deposits, reserves other liabilities or capital attributable thereto (other than any Excluded Taxes), (ii) change the basis of taxation of payments to the Bank or any Participant of any amounts payable hereunder, under the Fee Letter or under the Bank Note (other than a change in the rate of any Excluded Tax), (iii) impose, modify or deem applicable any reserve, capital or liquidity ratio, special deposit, compulsory loan, insurance charge or similar requirement against issuing or honoring Drawings under the Letter of Credit, extending credit under this Reimbursement Agreement or assets held by or deposits with or for the account of, the Bank or any Participant, or (iv) impose on the Bank or any Participant any other condition regarding this Reimbursement Agreement, the Bank Note, or the Letter of Credit, and the result of any event referred to in clause (i), (ii), (iii) or (iv) above shall be to increase the cost to the Bank or any such Participant of honoring Drawings under the Letter of Credit, or making or maintaining any Bank Loan (or the obligation to make Bank Loans) or to reduce the amount of any sum received or receivable by the Bank or any such Participant hereunder, under the Fee Letter or under the Bank Note, then the City shall pay to the Bank or such Participant at such time and in such amount as is set forth in paragraph (c) of this Section, such additional amount or amounts as will compensate the Bank or such Participant for such increased costs or reductions in amount.

(b) If the Bank or any Participant shall have determined that any Change in Law shall impose, modify or deem applicable any capital adequacy, liquidity or similar requirement (including, without limitation, a request or requirement that affects the manner in which the Bank, any corporation controlling the Bank, any Participant or any corporation controlling such Participant allocates capital resources or liquidity to its commitments, including its obligations under lines of credit and letters of credit) that either (i) affects or would affect the amount of

capital or liquidity to be maintained by the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant as it relates to making or maintaining its obligations under this Reimbursement Agreement and the Letter of Credit or (ii) reduces or would reduce the rate of return on the Bank's capital or liquidity, or the capital or liquidity of any corporation controlling the Bank, or of any Participant or any corporation controlling any Participant, to a level below that which the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant could have achieved but for such Change in Law (taking into consideration the policies of the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant with respect to capital adequacy or liquidity as it relates to making or maintaining its obligations under this Reimbursement Agreement and the Letter of Credit), then the City shall pay to the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant at such time and in such amount as is set forth in paragraph (c) of this Section, such additional amount or amounts as will compensate the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant for such cost of maintaining such increased capital or liquidity or such reduction of the rate of return on the Bank's capital, or the capital of any corporation controlling the Bank, or of any Participant or any corporation controlling any Participant. The protection of this Section 2.12(b) shall be available to the Bank and any Participant regardless of any possible contention of invalidity or inapplicability of the Change in Law.

(c) Notwithstanding the foregoing, for purposes of this Reimbursement Agreement (i) all requests, rules, guidelines or directives in connection with the Dodd-Frank Act shall be deemed to be a Change in Law, regardless of the date enacted, adopted or issued, and (ii) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) or any Governmental Authority, in each case relating to Basel III or any successor Basel Accord, shall be deemed a Change in Law regardless of the date enacted, adopted or issued.

(d) The Bank or Participant will use commercially reasonable efforts to notify the City within 30 days of its obtaining actual knowledge of any Change in Law occurring after the Closing Date that will entitle the Bank or such Participant or the respective controlling corporation of either, to compensation pursuant to this Section; provided that the failure of the Bank or Participant to notify the City within such 30⁸ day period shall not relieve the City from any liability for payment of such compensation. Any request for payment pursuant to this Section 2.12 shall be accompanied by a certificate of the Bank or Participant claiming compensation under this Section and setting forth in reasonable detail the basis therefor; such certificate shall be conclusive in the absence of manifest error. In determining such amount, the Bank or Participant may use any reasonable average and attribution methods. The City shall not be required to compensate the Bank or any Participant pursuant to this Section 2.12 in respect of a period occurring more than six (6) months prior to the date the above-described written request is given to the City with respect thereto (the "Cut-Off Date"), except where (i) the Bank or Participant Bank, as applicable, had no actual knowledge of the action resulting in such request for compensation as of the Cut-Off Date or (ii) such increased costs, increased capital or reduction in return apply to the Bank or Participant Bank retroactively to a date prior to the Cut-Off Date.

(e) Notwithstanding anything to the contrary in this Section, in the event the Bank grants any participation to any Participant under this Reimbursement Agreement, the City shall not have any obligation to pay amounts pursuant to this Section in an amount greater than that which it would have been required to pay if the Bank had not granted such participation.

(f) The obligation of the City under this Section shall survive the termination of the Letter of Credit and this Reimbursement Agreement and the repayment of all amounts owing to the Bank hereunder and under the other Commercial Paper Documents.

Section 2.13. Security of the Payment Obligations. The Payment Obligations of the City hereunder are special obligations secured by a pledge of the Net System Revenues on a parity with the Subordinated Obligations.

Section 2.14. Absolute Obligations. Each Payment Obligation of the City shall be performed strictly in accordance with this Reimbursement Agreement (subject to any modifications, waivers or consents by the Bank in accordance with the terms hereof) under any and all circumstances, and shall not be affected by (a) any lack of validity or enforceability of this Reimbursement Agreement or any other Commercial Paper Document; (b) any amendment of, or any waiver or consent with respect to, this Reimbursement Agreement or any other Commercial Paper Document, not inconsistent with the foregoing; (c) the existence of any claim, set off, defense or other right which the City may have at any time against the Bank, the Dealer, the Issuing and Paying Agent, the Trustee or any other Person, whether in connection with this Reimbursement Agreement, the transactions described herein or any unrelated transaction; (d) any breach of contract or other dispute between the City or any other Person; (e) any statement, certificate, draft or other document presented under the Letter of Credit proving to be forged, fraudulent, untrue, inaccurate, invalid or insufficient in any respect; (f) any payment by the Bank under the Letter of Credit against presentation of a certificate which does not comply with the terms of the Letter of Credit (except as where such payment (i) constitutes gross negligence or willful misconduct of the Bank and (ii) the Bank has made payment of any Drawing under the Letter of Credit to a party other than the Issuing and Paying Agent); (g) any non-application or misapplication by the Trustee, the Issuing and Paying Agent, the Dealer or any other Person of the proceeds of any Drawing under the Letter of Credit or of the proceeds of the Commercial Paper Notes; (h) any delay, extension of time, renewal, compromise or other indulgence or modification (not inconsistent with the foregoing) agreed to by the Bank, with or without notice to or approval by the City, in respect of any of the obligations of the City to the Bank under this Reimbursement Agreement or any other Commercial Paper Document; (i) any exchange, release, surrender, impairment or non-perfection of any Lien on any collateral pledged or otherwise provided to secure any of the obligations contemplated herein or in any other Commercial Paper Document; (j) the occurrence of an Event of Default; or (j) any invalidity of the Commercial Paper Notes.

Section 2.15. Commercial Paper Notes Operations.

(a) Issuance Generally. The City will permit Commercial Paper Notes to be issued, and authorizes the Issuing and Paying Agent to issue Commercial Paper Notes, only in accordance with the terms of the Indenture and this Reimbursement Agreement.

(b) Notice of No Issuance; Final Drawing Notice. Commercial Paper Notes may be issued from time to time prior to the Stated Expiration Date in accordance with the Issuing and Paying Agency Agreement and the Indenture so long as (i) the Issuing and Paying Agent is not in receipt of a Notice of No Issuance delivered by the Bank pursuant to Section 7.2(c) hereof, which notice has not been rescinded by a Rescission of Notice of No Issuance, and (ii) the Issuing and Paying Agent is not in receipt of the Final Drawing Notice delivered by the Bank pursuant to Section 7.2(d) hereof. Pursuant to Sections 7.2(c) and (d) hereof, the Bank may deliver a Notice of No Issuance or a Final Drawing Notice at any time when an Event of Default shall have occurred and be continuing. A Notice of No Issuance or the Final Drawing Notice shall be effective when received by the Issuing and Paying Agent; provided, however, that a Notice of No Issuance or the Final Drawing Notice received by the Issuing and Paying Agent after 11:30 a.m. New York City time (8:30 a.m. San Diego time), on any day on which Commercial Paper Notes are being issued shall be effective on the next succeeding day. A Notice of No Issuance or the Final Drawing Notice may be given by facsimile or electronic mail transmission, confirmed in writing within twenty-four (24) hours, but the failure to so confirm such Notice of No Issuance or the Final Drawing Notice in writing shall not render such Notice of No Issuance or the Final Drawing Notice ineffective. The Bank will furnish a copy of any Notice of No Issuance or the Final Drawing Notice to the City and the Dealers promptly following delivery thereof to the Issuing and Paying Agent, but the failure to furnish any such copy shall not render ineffective such Notice of No Issuance or the Final Drawing Notice.

Section 2.16. The Bank Note. All Unreimbursed Amounts and Bank Loans shall be made against and evidenced by a promissory note (the "Bank Note") issued by the City pursuant to the terms hereof to the Bank. The Bank Note shall be payable to the order of the Bank in an amount equal to the aggregate amount of all Unreimbursed Amounts and Bank Loans outstanding from time to time. The Bank Note shall be executed and delivered to the Bank on the Closing Date substantially in the form of Exhibit B attached hereto, with appropriate insertions. All Unreimbursed Amounts and Bank Loans and all payments and prepayments on account of the principal of and interest thereon shall be recorded by the Bank on its books and records, which books and records shall, absent manifest error, be conclusive as to amounts payable by the City hereunder and under the Bank Note. The Bank may, but shall not be required to, complete the schedule attached to the Bank Note to reflect the status of Unreimbursed Amounts and Bank Loans thereunder; provided, that the failure to make, or any error in making, any such endorsement on such schedule shall not limit, extinguish or in any way modify the obligation of the City to repay the Unreimbursed Amounts and Bank Loans. The City shall pay principal and interest on the Bank Note on the dates and at the rates provided for in Sections 2.10 and 2.11 hereof with respect to Unreimbursed Amounts and Bank Loans.

Section 2.17. Failure to Extend. If the Stated Expiration Date of the Letter of Credit shall not be extended, the City agrees to use its best efforts to arrange for (i) the substitution of the Letter of Credit by an Alternate Subordinated Credit Support Instrument or (ii) the maturity of all of the Commercial Paper Notes supported by the Letter of Credit on or prior to the then existing Stated Expiration Date.

ARTICLE III

CONDITIONS PRECEDENT

Section 3.1. Conditions to Issuance of the Letter of Credit. The obligation of the Bank to issue the Letter of Credit is conditioned upon the satisfaction by the Bank on or before the Closing Date of the following conditions:

(a) On or before the Closing Date, the Bank shall have received and approved the following documents or materials, each of which shall be in form and substance satisfactory to the Bank and, where appropriate, duly executed (and acknowledged where necessary) and delivered by the appropriate parties thereto:

(i) executed original copies of the Bank Documents (other than the Letter of Credit), the Authority Letter of Representations and the Corporation Letter of Representations, and certified copies of each of the other Commercial Paper Documents which certification shall state that such documents are true, complete and in full force and effect;

(ii) a certificate of the Chief Financial Officer of the City, dated as of the Closing Date, stating that (A) the representations and warranties of the City contained in this Reimbursement Agreement and in each written document delivered by the City to the Bank in connection with this Reimbursement Agreement (I) which are not qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) are true and correct in all material respects and (II) which are qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) are true and correct in all respects, in each case on and as of the Closing Date to the same extent as though made on and as of the Closing Date; (B) no Default or Event of Default has occurred and is continuing and no Default or Event of Default will result from the issuance of the Letter of Credit; and (C) no event or circumstance or change has occurred since June 30, [insert year of most recent CAFR], which could reasonably be expected to result in a Material Adverse Effect;

(iii) a certificate of the clerk of the City attaching the resolutions of the City approving the Commercial Paper Documents and the transactions contemplated thereby, which certificate shall state that such resolutions have not been amended, rescinded and remain in full force and effect;

(iv) a certificate of the clerk of the City certifying the name, incumbency and signature of each individual authorized to sign the Commercial Paper Documents;

(v) a reliance letter addressed to the Bank authorizing the Bank to rely on the approving opinion of Bond Counsel dated as of the Closing Date;

(vi) an opinion of Counsel to the City, dated the Closing Date, and addressed to the Bank addressing such matters as the Bank may reasonably request;

(vii) an opinion of Counsel to the Authority, dated the Closing Date, and addressed to the Bank addressing such matters as the Bank may reasonably request;

(viii) an opinion of Counsel to the Issuing and Paying Agent, dated the Closing Date, and addressed to the Bank addressing such matters as the Bank may reasonably request;

(ix) (A) written evidence that, as of the Closing Date, the Commercial Paper Notes have been given a rating of not less than “VMIG-1” by Moody’s and “[]” by Fitch; and (B) recent written evidence (which may be in the form of recent rating letters or a screen shot of such ratings) that the Subordinated Obligations have been given Subordinated Obligation Ratings of not less than “Aa3” by Moody’s and “AA-” by Fitch;

(x) satisfactory written evidence that (A) a separate CUSIP number has been assigned to the Bank Note and (B) Moody’s has assigned to the Bank Note a long-term rating equal to or higher than investment grade.

(xi) a copy of the Offering Memorandum; and

(xii) such other documents, agreements, instruments, certificates and opinions as the Bank may reasonably require.

(b) On or before the Closing Date:

(i) the Bank shall be satisfied that the representations and warranties of the City contained herein and in any other City Document, of the Authority in the Authority Letter of Representations and of the Corporation contained in the Corporation Letter of Representations (A) which are not qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) shall be true and correct in all material respects to and (B) which are qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) shall be true and correct in all respects, in each case as of the Closing Date to the same extent as though made on and as of such date, except to the extent that such representations and warranties specifically relate to an earlier date and to the extent that any such representation or warranty specifically relates to an earlier date, such representation or warranty shall be true and correct as of such date;

(ii) the Bank shall be satisfied that no Event of Default shall have occurred and be continuing and no Event of Default will result from the issuance of the Letter of Credit; and

(iii) the Bank and its counsel shall be satisfied that the Bank and its counsel will receive payment in full of all fees and expenses contemplated herein in accordance with Section 2.2 hereof and the Fee Letter not later than thirty (30) days following the Closing Date;

(iv) the Bank shall be satisfied that no action, suit, investigation or proceeding is pending or threatened (i) in connection with the Commercial Paper Notes or the other

Commercial Paper Documents or any transactions contemplated thereby or (ii) against or affecting the City, the result of which could reasonably be expected to result in a Material Adverse Effect; and

(v) the Bank shall be satisfied that since June 30, [insert the year of the most recent CAFR], no material adverse change has occurred in the status of the business, operations or condition (financial or otherwise) of the Water System or the ability of the City to perform its obligations under the Commercial Paper Documents.

Section 3.2. Conditions to Bank Loans. The obligation of the Bank to make a Bank Loan in payment of an Unreimbursed Amount on the Liquidity Period End Date therefor is conditioned upon satisfaction by the Bank of the following conditions:

(a) the representations and warranties of the City contained herein and in any other City Document, of the Authority contained in the Authority Letter of Representations and of the Corporation contained in the Corporation Letter of Representations (i) which are not qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) shall be true and correct in all material respects to and (ii) which are qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) shall be true and correct in all respects, in each case to the same extent as though made on and as of the Liquidity Period End Date, except to the extent that such representations and warranties specifically relate to an earlier date and to the extent that any such representation or warranty specifically relates to an earlier date, such representation or warranty shall be true and correct as of such date; and

(b) no Event of Default shall have occurred and be continuing and no Event of Default will result from the making of the Bank Loan.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE CITY

In order to induce the Bank to enter into this Reimbursement Agreement and to issue the Letter of Credit and to make Bank Loans hereunder, the City represents and warrants to the Bank that the following statements are true and correct:

Section 4.1. Organization. The City is a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California. The City has all requisite power and authority, rights and franchises to own and operate the Water System, to carry on the Water Service as now conducted and as proposed to be conducted, and to enter into and perform its obligations under the City Documents.

Section 4.2. Authorization, Conflicts, Binding Effect. The execution, delivery and performance of the City Documents by the City are within the City's powers and have been duly authorized by all necessary action by the City. The execution, delivery and performance of the City Documents by the City will not (i) violate the Act or its Charter or any other law, rule, regulation, order, writ, judgment, injunction, decree, determination, or award, (ii) require any consent or approval of any Person (other than those that have been obtained), (iii) conflict with,

result in a breach of or constitute a default under any indenture, instrument or agreement to which the City is a party or is subject, or by which it, or its property, is bound, or (iv) except as provided by the Commercial Paper Documents, result in or require the creation or imposition of any Lien upon or with respect to the Water System or the Net System Revenues. The City is not in violation of or default under any such Legal Requirement, and no condition exists that would, with the giving of notice or lapse of time, or both, constitute such a violation or default. The City Documents have each been duly executed by the City and are legally valid and binding obligations of the City, enforceable against the City in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws affecting creditors' rights generally and by general principles of equity.

Section 4.3. Litigation. Except as set forth on Exhibit E attached hereto, there is no action, suit, investigation, proceeding or arbitration, at law or in equity or before or by any foreign or domestic court or other Governmental Authority (a "Legal Action") pending or, to the knowledge of the City, threatened against or affecting the City, the Water System or the Water Service which could reasonably be expected to result in a Material Adverse Effect. Except as set forth on Exhibit E attached hereto, there is no Legal Action pending or, to the knowledge of the City, threatened against or affecting the City questioning the validity or the enforceability of any City Documents.

Section 4.4. Compliance with Laws. The City is in compliance in all material respects with all Legal Requirements affecting the Water System and the Water Service, except in such instances in which (i) such Legal Requirement is being contested in good faith by appropriate proceedings diligently conducted and for which appropriate reserves have been established or (ii) the failure to comply therewith would not have a Material Adverse Effect.

Section 4.5. Payment of Taxes. All tax returns and reports of the City with respect to the Water System required to be filed with any Governmental Authority have been timely filed, and all taxes, assessments, fees and other governmental charges, upon the City and upon the properties, assets, income and franchises of the Water System which are due and payable have been paid when due and payable on a current basis, except to the extent that such taxes are being contested by the City in good faith by appropriate proceedings and for which appropriate reserves have been established.

Section 4.6. Offering Memorandum. The information contained in the Offering Memorandum under the caption "THE CITY" is correct in all material respects.

Section 4.7. City Documents; Commercial Paper Documents. Each of the City Documents is in full force and effect and represents a valid and binding obligation of the City, enforceable in accordance with its respective terms; no Event of Default or "event of default" presently exists under any of the City Documents; nor has the City or any other party thereto waived or deferred performance of any material obligation under any other City Document.

Section 4.8. Reaffirmation of Representations and Warranties. The City hereby makes to the Bank the same representations and warranties as are set forth by the City in the Agreement, which representations and warranties, as well as the related defined terms contained

therein, are hereby incorporated by reference for the benefit of the Bank with the same effect as if each and every such representation and warranty and defined term were set forth herein in its entirety. No amendment to such representations and warranties or defined terms made pursuant to the Agreement shall be effective to amend such representations and warranties and defined terms as incorporated by reference herein without the prior written consent of the Bank.

Section 4.9. Regulatory Compliance. The City is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation T, U or X of the Board of Governors of the Federal Reserve System), and no part of the proceeds of Drawings under the Letter of Credit will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock or to violate Sanctions.

Section 4.10. Registration, Consent and Approval. The execution, delivery and performance by the City of this Reimbursement Agreement and the other City Documents do not and with respect to the execution and delivery will not require registration with, or the consent or approval of, or any other action by, any federal, State or other governmental authority or regulatory body other than those which have been made or given and are in full force and effect (except for any federal securities laws or Blue Sky regulations, as to which no representation is given).

Section 4.11. Liens. The Agreement creates, for the benefit and security of the Subordinated Credit Provider Reimbursement Obligations, including the Payment Obligations, the legally valid, binding and irrevocable subordinate lien on and pledge of the Net System Revenues. The Agreement does not permit the issuance of any debt secured by the Net System Revenues to rank senior to the Commercial Paper Notes or the Payment Obligations, other than Permitted Parity Obligations. The payment of Payment Obligations ranks on a parity with the payment of principal of and interest on Commercial Paper Notes and other Subordinated Obligations and is not subordinate to any payment secured by a lien on the Net System Revenues or any other claim other than payments with respect to the principal of and interest on Permitted Parity Obligations, and is prior as against all other persons having claims of any kind in tort, contract or otherwise, whether or not such persons have notice of the lien. No filing, registering, recording or publication of the Agreement or any other instrument is required to establish the pledge under the Agreement or to perfect, protect or maintain the lien created thereby on the Net System Revenues.

Section 4.12. Sovereign Immunity. The defense of sovereign immunity is not available to the City in any proceeding by the Bank to enforce any of the obligations of the City under this Reimbursement Agreement or the City Documents and, to the fullest extent permitted by law, the City consents to the initiation of any such proceeding in any federal or state court of competent jurisdiction located in the State.

Section 4.13. No Default. No Event of Default exists on the date hereof.

Section 4.14. ERISA. The City does not maintain or contribute to, and has not maintained or contributed to, any Plan that is subject to Title IV of ERISA.

Section 4.15. Enforceability. This Reimbursement Agreement and the other City Documents are the legal, valid and binding agreements of the City, enforceable against it in accordance with their respective terms, except as may be limited by (a) bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws or judicial decisions for the relief of debtors or the limitation of creditors' rights generally and (b) equitable principles of general applicability.

Section 4.16. Status under Certain Laws. The City is not an "investment company" or a person directly or indirectly controlled by or acting on behalf of an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 4.17. Payment Obligations Constitute Subordinated Obligations. The Payment Obligations constitute "Subordinated Credit Provider Reimbursement Obligations" and "Subordinated Obligations" as defined in the Agreement.

Section 4.18. Interest. None of the Commercial Paper Documents provide for any payments that would violate any applicable law regarding permissible maximum rates of interest.

Section 4.19. Financial Information. The audited financial statements of the City with respect to the Water System for the Fiscal Year ended June 30, 2016, true and correct copies of which have heretofore been delivered or made available to the Bank, fairly present, in conformity with GAAP, the financial position of the Water System and its results of operations and changes in financial position at the dates and for the periods indicated. Since June 30, 2016, there has been no material adverse change in the business, financial position or results of operations of the Water System. Except as reflected in the financial statements referenced above or as otherwise disclosed by the City to the Bank in writing, there are as of the date hereof no liabilities or obligations with respect to the City of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether or not due) which, in the aggregate, would be material to the Water System. The City does not know of any basis for the assertion against the City with respect to the Water System of any liability or obligation of any nature whatsoever that is not reflected in the financial statements referenced above or as otherwise disclosed by the City to the Bank in writing, which, in the aggregate, could be material to the Water System.

Section 4.20. Sanctions. The City (a) is not currently the subject of any Sanctions or in violation of any Anti-Corruption Laws, (b) is not located, organized or residing in any Designated Jurisdiction, or (c) is not nor has been (within the previous five (5) years) engaged in any transaction with any Person who is now or was then the subject of Sanctions or who is located, organized or residing in any Designated Jurisdiction.

Section 4.21. Swap Contracts. The City has not entered into any Swap Contract secured by Net System Revenues (a) wherein any termination payment thereunder is senior to or on a parity with the payment of the Payment Obligation or (b) which requires the City to post cash collateral to secure its obligations thereunder.

Section 4.22. Water System. The City owns all, right, title and interest in and to the assets of the Water System.

Section 4.23. Environmental Matters. In the ordinary course of its business, the City conducts an ongoing review of Environmental Laws on the business, operations and condition of the property of the Water System, in the course of which it identifies and evaluates associated liabilities and costs (including, but not limited to, any capital or operating expenditures required for clean-up or closure of properties currently or previously owned or operated, any capital or operating expenditures required to achieve or maintain compliance with environmental protection standards imposed by law or as a condition of any license, permit or contract, any related constraints on operating activities, including any periodic or permanent shutdown of any facility or reduction in the level of or change in the nature of operations conducted thereat and any actual or potential liabilities to third parties, including employees, and any related costs and expenses). On the basis of such review, the City has reasonably concluded that any non-compliance with Environmental Laws could not reasonably be expected to have a Material Adverse Effect.

Section 4.24. No Proposed Legal Changes. There is no amendment or, to the knowledge of the City, proposed amendment to the Constitution of the State, any State law or the Charter or any administrative interpretation of the Constitution of the State, any State law, or the Charter, the effect of which could reasonably be expected to have a Material Adverse Effect.

ARTICLE V

AFFIRMATIVE COVENANTS OF THE CITY

Until the later of the Termination Date or the date that all the Payment Obligations are paid in full, unless the Bank otherwise expressly consents in writing:

Section 5.1. Maintenance of Existence, Etc. The City will maintain and preserve its existence and all rights material to the Water System; maintain the Water System in good order and repair; and conduct the Water Service in an orderly manner without voluntary interruption. The City shall maintain its legal existence as a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California. The City shall take all actions reasonable and within its power and authority to cause the Authority to maintain its legal existence as a joint powers agency organized and existing under the Constitution and the laws of the State and to cause the Corporation to maintain its legal existence as a non-profit public benefit corporation organized and existing under the Constitution and the laws of the State.

Section 5.2. Access and Reporting. The City shall permit the representatives of the Bank at any time or from time to time during normal business hours and upon reasonable notice (which shall be not less than five (5) Business Days) and as often as the Bank may reasonably request to inspect all of its properties, books and records of the Water System and make copies thereof or extracts therefrom (except copies or extracts of records and books of accounts containing information that is not otherwise publicly available), and to discuss from time to time the affairs, finances and accounts of the Water System with its officers and its independent public accountant. The City shall maintain a system of accounting established and administered in accordance with GAAP reflecting all financial transactions of the Water System and the Water

Service. The City, at its expense, shall furnish or cause to be furnished to the Bank the following:

(a) By no later than each March 27th immediately following the end of each Fiscal Year, the complete Comprehensive Annual Financial Report (“CAFR”) of the City, certified as to the fairness of presentation and conformity with GAAP by a firm of independent public accountants of recognized national standing. Simultaneously with the delivery of the CAFR described in the preceding sentence, the City shall provide a letter from the Chief Financial Officer of the City addressed to the Bank stating that no Event of Default has come to his/her attention (after due inquiry) and was continuing at the end of such fiscal period or on the date of his/her letter or, if an Event of Default has occurred has come to his/her attention (after due inquiry) and was continuing as of such date, indicating the nature of such event and the action which the City proposed to take with respect thereto;

(b) As soon as practicable following publication, a copy of the Water System’s operating budget for each Fiscal Year;

(c) As soon as practicable upon (and in any event not more than five Business Days following) the City becoming aware of the existence of any Event of Default, the City will give prompt notice in writing to the Bank of the occurrence of such event and the action, if determined, that the City proposes to take in regard to such occurrence;

(d) As soon as practicable but in any event within thirty (30) days after the issuance or incurrance thereof, copies of any prospectus, official statement, offering circular, placement memorandum, or similar or corresponding document, and any supplements thereto and updates and amendments thereof, that the City makes available in connection with the offering for sale of any securities secured by a pledge of Net System Revenues, or, in the case of any ordinance, indenture, contract or agreement by the City involving the creation of any indebtedness secured by Net System Revenues, but not involving the offering for sale of any securities related thereto, a copy of such ordinance, indenture, contract or agreement creating the related obligation;

(e) On the same day as the filing thereof, a copy of all continuing disclosure documents filed by the City with respect to indebtedness of the City secured by Net System Revenues in compliance with Securities and Exchange Commission rules codified at 17 C.F.R. Section 240.15c2-12;

(f) Promptly upon learning thereof, notice of the occurrence of any event, occurrence or change in circumstance that could reasonably be expected to result in a Material Adverse Effect;

(g) As promptly as practicable upon the City becoming aware thereof, written notice of (i) all actions, suits or proceedings pending or, to the knowledge of the City, threatened against the City, the Authority or the Corporation relating to the Water System or the Water Service before any arbitrator of any kind or before any court or other Governmental Authority relating to the Water System or the Water Service which if determined adversely to the City, the Authority or the Corporation could reasonably be expected to result in a Material Adverse Effect, (ii) any significant investigation or proceeding against the City relating to the Water System or

any of its securities secured by Net System Revenues by the Securities and Exchange Commission, the Department of Justice or the Internal Revenue Service which if determined adversely to the City, could reasonably be expected to result in a Material Adverse Effect, and (iii) any significant criminal investigation or proceeding by a Governmental Authority relating to the Water System or the Water Service involving the City, the Authority or the Corporation or any officer or member of the governing board of the City, the Authority or the Corporation;

(h) As promptly as practicable upon the City becoming aware thereof, the City shall furnish, or cause to be furnished, to the Bank (i) notice of the occurrence of any “event of default” under the Issuing and Paying Agent Agreement, any other Commercial Paper Document to which it is a party or any other document pursuant to which indebtedness secured by Net System Revenues is issued, incurred, enhanced or purchased, and (ii) notice of the failure by any Dealer or the Issuing and the Paying Agent to perform any of their respective obligations under the applicable Dealer Agreement or the Issuing and Paying Agent Agreement, as applicable;

(i) As promptly as practicable upon the City becoming aware thereof (and in any event on the same day as the posting thereof on EMMA), notice of any change in, or the suspension, withdrawal or unavailability of, any unenhanced long-term rating on any indebtedness secured by Net System Revenues; and

(j) Such other information respecting the operations and properties, financial or otherwise, of the Water System as the Bank may from time to time reasonably request.

As and to the extent that the requirements described above can be satisfied by the posting of same on EMMA or the City’s website, the City shall be deemed to have satisfied the reporting requirements set forth above as long as posting occurs within the applicable time frame described above.

Section 5.3. Further Assurances. From time to time hereafter, the City will, and shall take all actions reasonable and within its power and authority to cause the Authority and the Corporation to, execute and deliver such additional instruments, certificates or documents, and will take all such actions as the Bank may reasonably request, for the purposes of implementing or effectuating the provisions of this Reimbursement Agreement and the Commercial Paper Documents, or for the purpose of more fully perfecting or renewing the Bank’s rights with respect to the rights, properties or assets subject to such Commercial Paper Documents (or with respect to any additions thereto or replacements or proceeds thereof or with respect to any other property or assets hereafter acquired by the City which are or become a part thereof) pursuant hereto or thereto. Without limiting the generality of the foregoing, upon the exercise by the Bank of any power, right, privilege or remedy pursuant to this Reimbursement Agreement or the other Commercial Paper Documents which requires any consent, approval, registration, qualification or authorization of any Governmental Authority, the City will, and shall take all actions reasonable and within its power and authority to cause the Authority and the Corporation to, execute and deliver all necessary applications, certifications, instruments and other documents and papers that may be required in order to obtain such governmental consent, approval, registration, qualification or authorization.

Section 5.4. Application of Proceeds. The City shall apply the proceeds of the Commercial Paper Notes solely and entirely to the purposes specified in the Indenture and the Agreement and not to acquire any “margin stock” (as defined in Regulation U promulgated by the Federal Reserve Bank) and not in violation of any Legal Requirement, including Sanctions.

Section 5.5. Compliance with Legal Requirements. The City will comply in all material respects with all Legal Requirements affecting the Water System and the Water Service, except where (i) such Legal Requirement is being contested in good faith by appropriate proceedings diligently conducted and for which appropriate reserves have been established or (ii) the failure to comply therewith would not have a Material Adverse Effect.

Section 5.6. Payment of Obligations. The City will duly and punctually pay or cause to be paid all principal of and interest on any and all Obligations of the Water System unless diligently contested in good faith and by appropriate proceedings by the City and for which appropriate reserves have been established, subject to the exceptions, limitations and waivers set forth in the documents under which such Obligation was incurred.

Section 5.7. Performance of Covenants. The City agrees that it will perform and comply with each and every covenant and agreement required to be performed or observed by it in the Agreement which provisions, as well as related defined terms contained therein, are hereby incorporated by reference herein with the same effect as if each and every such provision were set forth herein in its entirety all of which shall be deemed to be made for the benefit of the Bank and shall be enforceable by the Bank against the City, which covenants, agreements, definitions and provisions shall continue in effect with regard to the Bank without regard or giving effect to any amendment or modification of such provisions or any waiver of compliance therewith unless consented to in writing by the Bank.

Section 5.8. Rate Covenant. The City shall fix, prescribe and collect rates and charges for the Water System which will at least be sufficient to comply with the requirements of Section 6.08 of the Agreement.

Section 5.9. Maintenance of Insurance. The City shall procure and maintain or cause to be procured and maintained insurance on the Water System to the extent required by Section 6.11 of the Agreement.

Section 5.10. ERISA. The City will comply in all material respects with Title IV of ERISA, if, when and to the extent applicable.

Section 5.11. Compliance with Laws, Etc. The City will comply with all Governmental Requirements applicable to the Water System (including the assets thereof), the conduct of the business of the Water Service and applicable Legal Requirements, except where the failure to do so would not have a Material Adverse Effect.

Section 5.12. Taxes.

(a) Any and all payments by the City hereunder shall be made in accordance with Section 2.6 hereof without setoff, defense or claim and shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or

withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, fines, additions to tax or penalties applicable thereto, and all liabilities with respect thereto, excluding Excluded Taxes (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the City shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Bank, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 5.12) the Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the City shall make such deductions and (iii) the City shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and shall provide the Bank with written evidence of the payment thereof as soon as practicable.

(b) In addition, the City agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder, under the Fee Letter or under the Bank Note or from the execution, delivery or registration of, or otherwise with respect to, this Reimbursement Agreement, the Fee Letter and the Bank Note (hereinafter referred to as "Other Taxes").

(c) The City will indemnify the Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 5.12) paid by the Bank and any liability (including penalties, interest and expenses, other than those penalties, interest and expenses arising from the gross negligence or willful misconduct of the Bank) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within thirty (30) days from the date the Bank makes written demand therefor. The Bank shall notify the City in writing reasonably promptly after determining that Taxes or Other Taxes may be payable hereunder.

(d) If the City makes any additional payment to the Bank pursuant to this Section 5.12 in respect of any Taxes or Other Taxes, and the Bank in its sole discretion determines that it has received (i) a refund of such Taxes or Other Taxes or (ii) a credit against or relief or remission for, or a reduction in the amount of, any tax or other governmental charge solely as a result of any deduction or credit for any Taxes or Other Taxes with respect to which it has received payments under this Section 5.12, the Bank shall, to the extent that it can do so without prejudice to the retention of such refund, credit, relief, remission or reduction, pay to the City such amount as the Bank shall have reasonably determined in its sole discretion to be attributable to the deduction or withholding of such Taxes or Other Taxes (not to exceed the amount the Bank previously received from the City pursuant to this Section 5.12), without interest. If the Bank later determines that it was not entitled to such refund, credit, relief, remission or reduction to the full extent of any payment made pursuant to the first sentence of this Section 5.12(d), the City shall upon demand of the Bank promptly repay the amount of such overpayment. Any determination made by the Bank pursuant to this Section 5.12(d) shall in the absence of bad faith or manifest error be conclusive, and nothing in this Section 5.12(d) shall be construed as requiring the Bank to conduct its business or to arrange or alter in any respect its tax or financial affairs so that it is entitled to receive such a refund, credit or reduction or as allowing any person to inspect any records, including tax returns, of the Bank. Nothing contained in this

Section 5.12 shall require the Bank to disclose to the City any tax return of the Bank or any tax return of the consolidated group of which the Bank is a party.

(e) Without prejudice to the survival of any other agreement of the City hereunder, the obligation of the City under this Section shall survive the termination of the Letter of Credit and the termination of this Reimbursement Agreement and the repayment of all amounts owing to the Bank hereunder and under the other Commercial Paper Documents.

Section 5.13. Sovereign Immunity. To the extent permitted by law, in the event the City has or hereafter acquires under any applicable law any right of immunity from set off or legal proceedings on grounds of sovereignty or otherwise, the City hereby waives such rights to immunity for itself in all disputes or legal actions brought by the Bank with respect to obligations of the City arising under this Reimbursement Agreement or any other Commercial Paper Document to which the City is a party.

Section 5.14. Maintenance of Ratings. The City shall cause to be maintained at least: (i) one Subordinated Obligation Rating at all times; provided, however, that in no event may the City terminate or request a withdrawal of a Subordinated Obligation Rating in order to cure a Default or an Event of Default or to reduce any amount payable or to become payable under the Fee Letter, and (ii) one long-term rating assigned to the Bank Note.

Section 5.15. Preservation of Security. The City shall, and shall take all actions reasonable and within its power and authority to cause the Authority and the Corporation to, take any and all actions necessary or reasonably requested by the Bank to defend and maintain the pledge of Net System Revenues to secure the Payment Obligations.

Section 5.16. Issuing and Paying Agent and Dealer.

(a) The City shall, and shall take all actions reasonable and within its power and authority to cause the Authority, at all times maintain a Dealer with respect to the Commercial Paper Notes. The City shall, and shall cause the Authority and the Corporation to, use its respective best efforts at all times to enforce the Dealer Agreement. The City shall, and shall cause the Authority and the Corporation to, cause the Dealer to use its best efforts to sell the Commercial Paper Notes up to the maximum rate applicable in order to repay maturing Commercial Paper Notes. Each Dealer Agreement shall provide that the related Dealer may not resign until the date which is at least sixty (60) days following the receipt by the City, the Authority, the Issuing and Paying Agent and the Bank of prior written notice of such resignation.

(b) The City shall, and shall take all actions reasonable and within its power and authority to cause the Authority to, at all times maintain an Issuing and Paying Agent pursuant to the terms of the Issuing and Paying Agent. Any successor Issuing and Paying Agent (or any parent or affiliate of such Issuing and Paying Agent) shall have capital of not less than \$500,000,000. The City shall, and shall cause the Authority and the Corporation to, use its respective best efforts at all times to enforce the Issuing and Paying Agency Agreement.

Section 5.17. Bank Agreements. In the event that City shall enter into or otherwise consent to any amendment, supplement or other modification of any Bank Agreement after the Closing Date which Bank Agreement contains additional or more restrictive covenants or

additional or more restrictive events of default or additional collateral (“Improved Provisions,” which for the avoidance of doubt does not include pricing, termination fees and provisions related to interest rates) in each than the provisions of this Reimbursement Agreement, then the City shall provide the Bank with a copy of such Bank Agreement and the Improved Provisions shall automatically be deemed incorporated into this Reimbursement Agreement and the Bank shall have the benefit of the Improved Provisions until such time as the Bank Agreement containing such Improved Provisions terminates. The City shall promptly cooperate with the Bank to enter into an amendment of this Agreement to include such Improved Provisions.

ARTICLE VI

NEGATIVE COVENANTS OF THE CITY

Until the later of the Termination Date or the date that all Payment Obligations are paid in full, unless the Bank otherwise expressly consents in writing:

Section 6.1. Amendments to Commercial Paper Documents. The City shall not, and to the extent within its power and authority shall not permit the Authority or the Corporation to, enter into or consent to any amendment to, modification of or waiver of compliance with the provisions of any of the Commercial Paper Documents other than the Bank Documents, except that the City, the Authority or the Corporation, as the case may be, may amend, modify or waive any term or provision with respect to any Commercial Paper Document other than the Bank Documents in a manner (i) not relating to the duties, obligations or rights of the Bank under this Reimbursement Agreement, as determined in the Bank’s reasonable discretion, or (ii) not having an adverse effect, as determined in the Bank’s reasonable discretion, on (x) the ability of the City, the Authority or the Corporation to timely pay when due the principal of or interest on the Commercial Paper Notes and the obligations of the City under Bank Documents or (y) the security, rights or remedies of the Bank hereunder or under any other Commercial Paper Document. In connection with any such amendment, modification or waiver, the City agrees to deliver to the Bank copies of all such amendments, modifications or waivers at least fifteen (15) calendar days prior to the effective date thereof. The Bank shall, within ten (10) calendar days after receiving such copies, inform the City in writing if, in the Bank’s reasonable discretion, such amendment, modification or waiver requires the prior written consent of the Bank in accordance with this Section 6.1(a).

Section 6.2. Additional Obligations. The City shall not:

(a) Create any Obligations, the payments of which are senior or prior in right to the payment by the City of Parity Obligations.

(b) Create any Obligations, the payments of which are on a parity in right to the payment by the City of the Parity Obligations, except for Permitted Parity Obligations.

(c) Create any Obligations, the payments of which are on a parity in right to the payment by the City of the Subordinated Obligations, except for Permitted Subordinated Obligations.

Section 6.3. Sale or Other Disposition of Property. The City shall comply with the requirements of Section 6.04 of the Agreement.

Section 6.4. Encumbrances. The City shall comply with the requirements of Section 6.02 of the Agreement.

Section 6.5. Substitute Subordinated Credit Support Instrument. The City shall not substitute an Alternate Subordinated Credit Support Instrument for the Letter of Credit unless (i) the City shall have given the Bank and the Issuing and Paying Agent at least fifteen (15) days' prior written notice, (ii) contemporaneously with the effectiveness of such Alternate Subordinated Credit Support Instrument all obligations of the City owing to the Bank hereunder, under the Fee Letter and under the Bank Note are paid in full, including without limitation any Payment Obligations and any Unreimbursed Amounts and Bank Loans plus accrued and unpaid interest thereon and any termination fee due and owing hereunder or under the Fee Letter to but excluding the date such Alternate Subordinated Credit Support Instrument becomes effective and (iii) the City has complied with Section 2.9 hereof.

Section 6.6. Tax Covenant. The City shall comply with the requirements of Section 6.17 of the Agreement.

Section 6.7. Disclosure. The City shall not change any reference to the Bank in the Offering Memorandum without the Bank's prior written consent thereto. The City shall not make reference to any financial information relating to the Bank or the Bank's long or short-term debt ratings in any offering document other than the Offering Memorandum without the Bank's prior written consent thereto.

Section 6.8. Swap Contracts. The City shall not, and to the extent within its power and authority shall not permit the Authority or the Corporation to, enter into any Swap Contract secured by Net System Revenues (a) wherein any termination payments thereunder are senior to or on parity with the payment of the Commercial Paper Notes or the Payment Obligations or (b) which requires the City, the Authority or the Corporation to post cash collateral to secure its obligations thereunder.

Section 6.9. Water System. The City shall not, and to the extent within its power and authority shall not permit the Authority or the Corporation to, construct, operate or maintain, or permit any other public or private corporation, political subdivision, district or agency or any Person whatsoever to construct, operate or maintain, within the City or any part thereof, any system or utility competitive with the Water System. The City shall comply with the requirements of Section 6.15 of the Agreement.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 7.1. Events of Default. “Event of Default” shall mean any of the following events:

(a) The City shall fail to pay to the Bank when due (whether upon demand or otherwise) (i) the principal of, or interest on, any Unreimbursed Amount or Bank Loan or (ii) any other any of the Payment Obligation and such default shall remain unremedied for five (5) Business Days; or

(b) (i) the City fails to perform or observe any term, covenant or agreement contained in Section 5.1, 5.2(c), 5.4 and Article VI; or (ii) the City fails to perform or observe any other term, covenant or agreement contained in this Reimbursement Agreement (other than those referred to in Sections 7.1(a) and (b)(i)) or any other City Document and such failure shall not have been cured within thirty (30) days after the earlier to occur of (x) the date of delivery of written notice of such failure to the City by the Bank, and (y) the date on which the City has actual knowledge of such failure; or

(c) The City shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of the City or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts, (vi) fail to controvert in a timely or appropriate manner, or acquiesce, any petition filed against the City in any involuntary case under said Federal Bankruptcy Code, or (viii) take any action for the purpose of effecting any of the foregoing; or

(d) A proceeding or case shall be commenced, without the application or consent of the City, in any court of competent jurisdiction, seeking (i) the liquidation, reorganization, dissolution, winding up or composition or readjustment of debts of the City, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like, of the City, or of all or any substantial part of the City’s assets, or (iii) similar relief in respect of the City under any law relating to bankruptcy, insolvency, reorganization, winding up or composition, moratorium, repudiation or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of sixty (60) days from commencement of such proceeding or case, or an order for relief against the City shall be entered in an involuntary case under said Federal Bankruptcy Code; or

(e) A debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction is imposed by any Governmental Authority (including the City) on the repayment when due and payable of the principal of or interest on any indebtedness of the City payable from, and secured by, Net System Revenues or any portion thereof; or

(f) Any representation or warranty (i) made by the City in this Reimbursement Agreement or in any other City Document or in any certificate or statement delivered hereunder or thereunder that is not qualified by the concept of “materiality” shall be incorrect or untrue in any material respect when made or deemed to have been made or delivered or (ii) made by the City in this Reimbursement Agreement or in any other City Document or in any certificate or statement delivered hereunder or thereunder that is qualified by the concept of “materiality” shall be incorrect or untrue in any respect when made or deemed to have been made or delivered; or

(g) The independent certified public accountants retained by the City shall fail or refuse to deliver an opinion, unqualified in scope (other than an opinion qualified as a result of a change in application of GAAP, such change being one with which such accountants concur) with respect to the financial statements of the City; or

(h) (i) Any material provision of this Reimbursement Agreement or any other Commercial Paper Document (other than the Letter of Credit) (1) shall at any time for any reason cease to be valid and binding on the City, the Authority or the Corporation (with respect to those Commercial Paper Documents to which the City, the Authority or the Corporation, as the case may be, is a party), or (2) shall be declared to be null and void, or (ii) the validity or enforceability thereof shall be contested by the City, the Authority or the Corporation (with respect to those Commercial Paper Documents to which the City, the Authority or the Corporation, as the case may be, is a party), or (iii) the City, the Authority or the Corporation (with respect to those Commercial Paper Documents to which the City, the Authority or the Corporation, as the case may be, is a party) shall deny that it has any or further liability or obligation under this Reimbursement Agreement or any of the other Commercial Paper Documents to which it is a party; or

(i) (i) One or more final, non-appealable judgments against the City for the payment of money from System Revenues not covered by insurance (excluding any insured judgment if the insurer has disputed coverage thereof in writing), the operation and result of which, individually or in the aggregate, equal or exceed \$15,000,000 shall remain unpaid as and when due (i.e., if such judgment allows for payment over time), unstayed, undischarged, unbonded or undismissed for a period of forty-five (45) days; or (ii) any of the System Revenues shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within sixty (60) calendar days after its issue or levy; or

(j) The occurrence of an “event of default” or an event which, with the passage of time or the giving of notice, or both, would be an “event of default” under the Agreement, if the result is to permit an acceleration of the obligations thereunder; or

(k) The City fails to make any payment with respect to any Parity Obligation, any Permitted Parity Obligations, any Subordinated Obligations or any Subordinated Credit Provider Reimbursement Obligations when due or any other event or condition shall occur which would permit the acceleration of the maturity of any such Parity Obligations, Permitted Parity Obligations, Subordinated Obligation or Subordinated Credit Provider Reimbursement Obligation; or

(l) Any of the Subordinated Obligation Ratings by the Rating Agencies then rating the Subordinated Obligations shall be withdrawn or suspended for credit related reasons or shall be reduced below “Baa3” (or its equivalent) by Moody’s or “BBB-” (or its equivalent) by Fitch.

Section 7.2. Remedies. Upon the occurrence and continuance of an Event of Default, the Bank may, in its sole discretion, but shall not be obligated to:

(a) declare the unpaid principal amount of all outstanding Bank Loans and all Unreimbursed Amounts, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Bank Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the City; provided, however, that such acceleration shall occur immediately without any action upon the occurrence of an Event of Default set forth in Section 7.1(c) or 7.1(d) hereof; or

(b) terminate or suspend the authority of the City and the Issuing and Paying Agent to issue any further Commercial Paper Notes and reduce the Stated Amount of the Letter of Credit to an amount equal to the principal amount of Commercial Paper Notes then Outstanding supported by the Letter of Credit, plus interest payable thereon at maturity of the Commercial Paper Notes, by delivering to the Issuing and Paying Agent a Notice of No Issuance; or

(c) issue a Final Drawing Notice (the effect of which shall be to cause the Termination Date of the Letter of Credit to occur on the 15th day after the date of receipt thereof by the Issuing and Paying Agent); or

(d) enforce the rights and obligations of the City under the Commercial Paper Documents as if the Bank were a party thereto; or

(e) exercise any other remedies available at law or in equity.

Upon the exercise by the Bank of any remedy contained in clauses (a), (b) or (c) of this Section 7.2, the Stated Amount of the Letter of Credit shall be immediately and permanently reduced by an amount equal to the amount of each subsequent Drawing. Upon the occurrence and during the continuance of an Event of Default all Payment Obligations shall bear interest at the Default Rate.

Section 7.3. Set-Off. The Bank hereby waives any rights now or hereafter granted under applicable law to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Bank to or for the credit or the account of the City or the Water Utility Fund against and on account of any and all of the obligations of the City now or hereafter existing under this Reimbursement Agreement, the Bank Note, or the Letter of Credit.

Section 7.4. Remedies Cumulative. All remedies provided for in this Reimbursement Agreement are cumulative and shall be in addition to any and all other rights and remedies available under the Commercial Paper Documents or any other document or at law or equity. No exercise of any right or remedy shall in any way constitute a cure or waiver of any Event of Default hereunder, or invalidate any act done pursuant to any notice of default, or prejudice the

exercise of any other right or remedy available to the Bank. No failure to exercise, and no delay in exercising, any right or remedy shall operate as a waiver or otherwise preclude enforcement of any of the Bank's rights and remedies; nor shall any single or partial exercise of any right or remedy preclude any further exercise thereof or of any other right or remedy. The Bank need not resort to any particular right or remedy before exercising or enforcing any other.

ARTICLE VIII

MISCELLANEOUS

Section 8.1. Notices. All notices and other communications hereunder shall be in writing and shall be delivered by personal delivery, facsimile transmission or other form of telecommunication, or by first class mail (postage prepaid), to the notice addresses set forth below or to such other addresses or payment instructions as the parties may provide to one another in accordance with this Section. Such notices and other communications shall, if sent by facsimile transmission or other form of telecommunication in accordance with this Section, be deemed given upon transmission thereof, confirmed by telephone, and if sent by any other method, shall be effective only if and when received by the addressee.

Address for notices to the City:

City of San Diego
[]
San Diego, California []
Attention: []
Telephone: ([]) []-[]
Telefax: ([]) []-[]

and copy to:

City of San Diego
[]
San Diego, California []
Attention: []
Telephone: ([]) []-[]
Telefax: ([]) []-[]

Address for notices to the Bank:

If to the Bank regarding credit matters:

Bank of the West
[]
[]
Attention: []
Telephone: ([]) []-[]
Facsimile: ([]) []-[]
E Mail: []

If to the Bank regarding operational matters:

Bank of the West

[_____]

[_____]

Attention: [_____]

Telephone: ([____]) [____]-[____]

Facsimile: ([____]) [____]-[____]

E Mail: [_____]

Wire instructions with respect to payment of Payment Obligations (other than reimbursement of Drawings):

[Insert wire instructions]

Wire instructions with respect to reimbursement of Drawings under the Letter of Credit:

[Insert wire instructions]

Section 8.2. Amendments, Waivers, Etc. No amendment or waiver of any provision of this Reimbursement Agreement or other Commercial Paper Document, nor consent to any departure by the City herefrom or therefrom, shall in any event be effective unless the same shall be in writing and signed by the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 8.3. Indemnification. (a) To the extent permitted by law, the City hereby agrees to indemnify and hold harmless the Bank, its officers, directors, employees and agents (collectively, the "Indemnitees") from and against any and all suits, claims, damages, losses, liabilities, costs or expenses (including reasonable fees and expenses of counsel) that any Indemnitee may incur (or that may be claimed against the Indemnitees by any Person) in connection with the Offering Memorandum, the offering and sale of the Commercial Paper Notes, the issuance of the Bank Note, the issuance by the Bank of the Letter of Credit or any of the other transactions contemplated by the Commercial Paper Documents; provided, however, that the City shall not be required to indemnify the Bank for any suits, claims, damages, losses, liabilities, costs or expenses that are determined by a final order of a court of competent jurisdiction to have been caused by (i) the Bank's willful misconduct or gross negligence in determining whether documents presented under the Letter of Credit comply with the terms of the Letter of Credit, (ii) the Bank's willful failure to make lawful payment under the Letter of Credit after the presentation to it by the Issuing and Paying Agent of a certificate strictly complying with the terms and conditions of the Letter of Credit (as long as such certificate is properly presented prior to the termination or expiration of the Letter of Credit) or (iii) the inaccuracy of any description of the Bank provided in writing by the Bank for inclusion in the Offering Memorandum.

(b) Upon receiving knowledge of any suit, claim or demand asserted by a third party that any Indemnitee believes is covered by this indemnity, the Bank shall give the City notice of the matter; provided that failure to give such notice shall not relieve the City of any of its obligations hereunder, unless and solely to the extent that such failure shall have materially

prejudiced the City's ability to defend against such suit, claim or demand. Notwithstanding anything else contained herein, each Indemnatee shall have the right to employ its own counsel and to determine its own defense of any such Liability, but the fees and expenses of such counsel shall be at the expense of such Indemnatee unless (i) the employment of such counsel shall have been authorized in writing by the City, (ii) the City, after due notice of the action, shall not have employed counsel satisfactory to and with the consent of such Indemnatee to have charge of such defense, in either of which events the reasonable fees and expenses of counsel for such Indemnatee shall be borne by the City, (iii) there are defenses available to such Indemnatee that are not available to the City and which cannot, in the reasonable opinion of such Indemnatee, be vigorously pursued by counsel selected by the City or (iv) such suit, claim or demand seeks injunctive relief against such Indemnatee, in which case the City shall pay the fees and expenses of counsel selected by such Indemnatee. The City shall not be liable for any settlement of any such action effected without its consent, which consent shall not be unreasonably withheld, delayed or conditioned. Should the City's consent be unreasonably withheld, delayed or conditioned, an Indemnatee shall have the right to file an action for breach of this Reimbursement Agreement against City for its unreasonable refusal to approve (or its delay in approving or conditioning of approval) such settlement, and City shall fully indemnify such Indemnatee for its costs and fees (including, but not limited to, attorneys' fees) for bringing such an action and for any and all liabilities, losses, fees and expenses sustained or incurred by such Indemnatee as a result of the City's unreasonable refusal to approve (or delay in approving or conditioning of approval) such settlement.

(c) Nothing in this Section is intended to limit the obligations of the City contained in Article 2. Without prejudice to the survival of any other obligation of the City hereunder, the indemnities and obligations of the City contained in this Section shall survive performance of all obligations hereunder and the termination of the Letter of Credit or the exercise by the Bank of any of its remedies under this Reimbursement Agreement or any other Commercial Paper Document and the repayment of all amounts owing to the Bank hereunder and under the other Commercial Paper Documents.

Section 8.4. Liability of the Bank. As to the Bank, the City assumes all risks of the acts or omissions of the Trustee, the Dealers and the Issuing and Paying Agent with respect to their use of the Letter of Credit and the proceeds thereof and the proceeds of the Commercial Paper Notes; provided, however, that this assumption is not intended to, and shall not, preclude the City from pursuing such rights and remedies as it may have against the Trustee or the Issuing and Paying Agent at law or under any other agreement. Neither the Bank nor any of its officers, directors, employees or agents shall be liable or responsible for:

(a) the use made of the Letter of Credit or any proceeds of the Letter of Credit or for any acts or omissions of the Trustee, the Dealers or the Issuing and Paying Agent;

(b) the validity, sufficiency or genuineness of any documents, or endorsements, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged;

(c) payment by the Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear adequate reference to the Letter of Credit; or

(d) any other circumstances in making or failing to make payment under the Letter of Credit;

provided, however, that the City shall have a claim against the Bank, and the Bank shall be liable to the City for direct, but not consequential, special, exemplary, indirect or punitive damages suffered by the City which were determined by a final order of a court of competent jurisdiction to have been caused solely by the willful misconduct or gross negligence of the Bank in connection with drawings under the Letter of Credit. By way of amplification, the Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary. Subject to the foregoing, the determination of whether a Drawing has been presented under the Letter of Credit prior to the Termination Date or whether a Drawing under the Letter of Credit or any accompanying document or instrument is in proper and sufficient form shall be made by the Bank in its sole discretion, which determination shall be conclusive and binding upon the City. The City hereby waives any right to object to any payment made under the Letter of Credit against a Drawing with accompanying documents in the forms provided for in the Letter of Credit but varying in punctuation, capitalization, spelling or similar matters of form.

Section 8.5. Successors and Assigns. This Reimbursement Agreement and the Fee Letter are continuing obligations and shall be binding upon the Bank, the City, and their respective successors, transferees and assigns, and shall inure to the benefit of and be enforceable by the Bank, the City and their respective successors, transferees and assigns; provided, however, that the City shall not assign all or any part of this Reimbursement Agreement, the Fee Letter or the Bank Note without the prior written consent of the Bank.

Section 8.6. Governing Law. This Reimbursement Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State.

Section 8.7. Survival of Warranties. All agreements, representations and warranties made in this Reimbursement Agreement and in any related certificates shall survive the execution and delivery of this Reimbursement Agreement and the issuance and expiration of the Letter of Credit and the repayment of the Commercial Paper Notes, and shall continue until any and all the Payment Obligations shall have been paid and performed in full.

Section 8.8. Severability. Any provision of this Reimbursement Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 8.9. Counterparts. This Reimbursement Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, and all of which counterparts, taken together, shall constitute but one and the same agreement.

Section 8.10. Time of Essence. Time is of the essence of this Reimbursement Agreement and of each provision in which time is an element.

Section 8.11. Headings. Article, section and other headings in this Reimbursement Agreement are for convenience of reference only and shall not constitute a part of this Reimbursement Agreement for any other purpose.

Section 8.12. Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any one of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of an Event of Default if such action is taken or condition exists.

Section 8.13. Entire Agreement. This Reimbursement Agreement, including Exhibits A-B, together with the other Bank Documents, integrates all of the terms and conditions mentioned herein and therein or incidental hereto or thereto, and supersedes all negotiations or prior or contemporaneous agreements, whether written or oral, between the parties hereto with respect to the subject matter hereof and thereof.

Section 8.14. No Personal Liability. Notwithstanding anything to the contrary contained herein or in any of the Commercial Paper Documents, no stipulation, covenant, agreement or obligation contained herein or therein shall be deemed or construed to be a stipulation, covenant, agreement or obligation of any present or future trustee, officer, employee or agent of the City or the Bank, or of any incorporator, trustor, member, director, trustee, officer, employee or agent of any successor to the City or the Bank, in any such Person's individual capacity, and no such Person, in his individual capacity, shall be liable personally for any breach or nonobservance of or for any failure to perform, fulfill or comply with any such stipulations, covenants, agreements or obligations, nor shall any recourse be had against any present or future trustee, officer, employee or agent of City for the performance or payment of the Payment Obligations or against any present or future trustee, officer, employee or agent of the City or the Bank for any claim based thereon or on any such stipulation, covenant, agreement or obligation, against any such Person, in his individual capacity, either directly or through the City or the Bank or any successor to the City or the Bank, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such Person, in his individual capacity, is hereby expressly waived and released.

Section 8.15. Maximum Rate. This Reimbursement Agreement is subject to the express condition that at no time shall the City be obligated or required to pay interest on any Payment Obligations at a rate that could subject the Bank to either civil or criminal liability as a result of such rate being in excess of the maximum interest rate that the City is permitted by law to contract or agree to pay. If the rate of interest payable on any Payment Obligation shall exceed the Maximum Rate for any period for which interest is payable, then (a) interest at the Maximum Rate shall be due and payable with respect to such interest period, and, to the extent permitted by law, (b) interest at the rate equal to the difference between (i) the rate of interest calculated in accordance with the terms hereof and (ii) the Maximum Rate (the "Excess Interest"), shall be deferred until such date as the rate of interest calculated in accordance with the terms hereof ceases to exceed the Maximum Rate, at which time the City shall pay to the Bank, with respect

to amounts then payable to the Bank that are required to accrue interest hereunder, such portion of the deferred Excess Interest as will cause the rate of interest then paid to the Bank to equal the Maximum Rate, which payments of deferred Excess Interest shall continue to apply to such unpaid amounts hereunder until all deferred Excess Interest is fully paid to the Bank. To the extent permitted by law, upon the date all Payment Obligations are payable hereunder following the termination of the Letter of Credit, in consideration for the limitation of the rate of interest otherwise payable hereunder, the City shall pay to the Bank a fee equal to the amount of all unpaid deferred Excess Interest. Any Excess Interest shall, to the extent permitted by law, bear interest at the Bank Rate until paid in full.

Section 8.16. Participations. The Bank may sell participations to one or more banks or other entities in or to all or a portion of its rights and obligations under this Reimbursement Agreement and the other Commercial Paper Documents (including, without limitation, all or a portion of the Letter of Credit and the Payment Obligations owing to it); provided, however, that (i) the Bank's obligations under this Reimbursement Agreement and the Letter of Credit shall remain unchanged, (ii) the Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, and (iii) the City shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under this Reimbursement Agreement and the other Commercial Paper Documents. Each Participant shall be entitled to the benefits of Section 5.12 to the same extent as the Bank.

(a) The Bank may, in connection with any participation or proposed participation pursuant to this Section 8.17, disclose to the participant or proposed participant any information relating to the City, the Authority and the Corporation furnished to the Bank by or on behalf of the City, provided that the participant shall agree to maintain the confidentiality of any non-public information provided to the Bank.

(b) The City shall not be responsible for any cost or expense incurred by the Bank in connection with any participation in the Payment Obligations or the Letter of Credit.

Section 8.17. No Waiver, Remedies. No failure on the part of the Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 8.18. USA Patriot Act. The Bank hereby notifies the City that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56, signed into law October 26, 2001) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the City, which information includes the name and address of the City and other information that will allow the Bank to identify the City in accordance with the Patriot Act, and the City hereby agrees to take any action necessary to enable the Bank to comply with the requirements of the Patriot Act.

Section 8.19. Anti-Money Laundering; OFAC; Patriot Act. The City hereby agrees to, and shall take all actions reasonable and within its power and authority to cause the Authority and the Corporation to, provide documentary and other evidence as may be reasonably requested

by the Bank at any time to enable the Bank to verify the identity of the City, the Authority and the Corporation, as the case may be, or to comply with any applicable law or regulation, including, without limitation, regulations of the Office of Foreign Assets Control and Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

Section 8.20. Assignment to Federal Reserve Bank. The City hereby consents and agrees that the Bank may at any time assign or pledge a security interest in all or any portion of its rights under this Reimbursement Agreement and the Bank Note to secure its obligations, including any pledge or assignment to secure obligations to a Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, provided that any payment in respect of such assigned Payment Obligations made by the City to the Bank in accordance with the terms of this Reimbursement Agreement shall satisfy the City's Payment Obligations hereunder in respect of such assigned Payment Obligation to the extent of such payment. No such assignment shall release the Bank from its obligations hereunder or under the Letter of Credit.

Section 8.21. Waiver of Jury Trial. The City and the Bank hereby irrevocably waive, to the fullest extent permitted by law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Reimbursement Agreement or any Commercial Paper Document or the transactions contemplated hereby or thereby. In the event the foregoing waiver is void or unenforceable, the parties agree that if any action or proceeding is filed in a court of the State by or against any party hereto in connection with any of the transactions contemplated by this Reimbursement Agreement or the Fee Letter, (i) the court shall, and is hereby directed to, make a general reference pursuant to California Code of Civil Procedure Section 638 to a referee (who shall be a single active or retired judge) to hear and determine all of the issues in such action or proceeding (whether of fact or of law) and to report a statement of decision, provided that at the option of any party to such proceeding, any such issues pertaining to a "provisional remedy" as defined in California Code of Civil Procedure Section 1281.8 shall be heard and determined by the court, and (ii) without limiting the generality of Section 2.3, the City shall be solely responsible to pay all fees and expenses of any referee appointed in such action or proceeding.

Section 8.22. No Advisory or Fiduciary Role. The City acknowledges and agrees that (a) the transactions contemplated by this Reimbursement Agreement, the Fee Letter and the Letter of Credit are arm's-length commercial transactions between the City and the Bank; (b) the Bank is acting solely as a principal (i.e., as a lender) in connection with the matters contemplated by and all communications under this Reimbursement Agreement, the Fee Letter and the Letter of Credit, and is not acting as the agent or fiduciary or Municipal Advisor (as defined in Section 15B of the Securities and Exchange Act of 1934, as amended, and the related final rules (the "Municipal Advisor Rules")) of the City and its advisors in connection with the matters contemplated by this Reimbursement Agreement, the Fee Letter and the Letter of Credit; (c) the Bank is relying on the bank exemption in the Municipal Advisor Rules; and (d) the Bank has financial and other interests that differ from those of the City.

[Remainder of page intentionally left blank; signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Reimbursement Agreement to be duly executed and delivered by their respective duly authorized officers as of the day and year first above written.

THE CITY OF SAN DIEGO

By: _____
Mary Lewis
Chief Financial Officer

ATTEST:

By: _____
Elizabeth S. Maland
City Clerk

APPROVED AS TO FORM:

JAN I. GOLDSMITH, City Attorney

By: _____
Brant C. Will
Deputy City Attorney

BANK OF THE WEST

By: _____
Name: _____
Title: _____

[Signature Page to CP Reimbursement Agreement]

EXHIBIT A

IRREVOCABLE LETTER OF CREDIT

LETTER OF CREDIT NO. [Letter of Credit No.]

EXHIBIT A
[FORM OF LETTER OF CREDIT]
BANK OF THE WEST
GLOBAL TRADE OPERATIONS
13300 CROSSROADS PARKWAY NORTH
CITY OF INDUSTRY, CALIFORNIA 91746

IRREVOCABLE LETTER OF CREDIT NO. MB*****

January [●], 2017
U.S. \$[●],000,000
No. MB*****

U.S. Bank National Association
as Issuing and Paying Agent
[Address]
Attention: Corporate Trust Services

Ladies and Gentlemen:

We hereby establish, at the request and for the account of the City of San Diego (the “City”), in your favor, as Issuing and Paying Agent (the “*Issuing and Paying Agent*”) with respect to the Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Commercial Paper Notes, Series [●] (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Notes”) issued pursuant to the Fifth Supplemental Indenture dated as of January 1, 2017 amending and supplementing the Indenture dated as of January 1, 2009 (the “*Indenture*”), by and between the Public Facilities Financing Authority of the City of San Diego (the “*Authority*”) and U.S. Bank National Association, as trustee (the “*Trustee*”), and the Issuing and Paying Agent Agreement dated as of January 1, 2017 (the “*Issuing and Paying Agent Agreement*”), between the Authority and the Issuing and Paying Agent, our Irrevocable Letter of Credit No. MB***** in the maximum available amount of [●] MILLION [●] HUNDRED [●] THOUSAND DOLLARS (\$[●]) as reduced, reinstated and decreased from time to time (the “*Stated Amount*”), which may be drawn upon from time to time in respect of the principal of and actual interest accrued or to accrue on the Eligible Notes (as hereinafter defined), effective on the date hereof and expiring at 2:00 p.m., Los Angeles, California time at our office in Los Angeles, California set forth below on January [●], 2020, except as extended pursuant to a notice from us to you in the form attached hereto as Annex F (the “*Letter of Credit Expiration Date*”) or terminated earlier as hereafter provided; *provided, however*, that if such date is not a Business Day, the Letter of Credit Expiration Date shall be the next preceding Business Day (as hereinafter defined). The Stated Amount is subject to reductions and reinstatements as provided herein. All drawings under this Letter of Credit will be paid with our own immediately available funds and will not be paid directly or indirectly from funds of any other person. This Letter of Credit is being issued pursuant to that certain Reimbursement Agreement, dated as of January [●], 2017 (as the same may at any time be amended or modified and in effect, the “*Reimbursement Agreement*”),

between the City and Bank of the West (the “*Bank*”). “*Eligible Notes*” means Notes which are not registered in the name of the City or the Authority or, to the best knowledge of the Issuing and Paying Agent, any nominee for or any Person who owns such Notes for the benefit of the City or the Authority. Capitalized terms used but not defined herein shall have the same meaning herein as in the Reimbursement Agreement.

We hereby irrevocably authorize you to draw on us in an aggregate amount not to exceed the Stated Amount of this Letter of Credit set forth above and in accordance with the terms and conditions and subject to the reductions and reinstatements in amount as hereinafter set forth, in one or more Drawings (as hereinafter defined) (subject to the provisions contained in the second following paragraph) payable as set forth herein on a Business Day, by presentation of your written and completed sight draft signed by you (in the form of Annex J hereto) accompanied by your written and completed certificate signed by you in the form of Annex A-1 (with respect to the payment at maturity of the principal of and interest at maturity on Notes) or (ii) Annex A-2 (with respect to the payment at maturity of the principal of outstanding Notes and the interest to accrue through the maturity thereof) and that are outstanding as of the date that you receive notice from us in the form of Annex I hereto (the “*Final Drawing Notice*”), attached hereto (any such certificate in the form of Annex A-1 or Annex A-2 being a “*Drawing*” and the Drawing following your presentation of Annex A-2, the “*Final Drawing*”), in an aggregate amount not exceeding the Stated Amount of this Letter of Credit.

“*Business Day*” means any day other than (i) a Saturday or Sunday or a day on which banking institutions are authorized or required by law or executive order to be closed in the State of California or in the State of New York for commercial banking purposes; (ii) a day on which the New York Stock Exchange is authorized or required by law or executive order to be closed; and (iii) a day upon which commercial banks are authorized or required by law or executive order to be closed in the cities and states in which demands for payment may be presented under this Letter of Credit.

Upon our honoring any Drawing, the Stated Amount and the amount available to be drawn hereunder by you pursuant to any subsequent Drawing shall be automatically reduced by an amount equal to the amount of such Drawing. Drawings shall be made on or prior to the date any sum is due on the Notes; *provided* that the Bank is not obligated to honor such Drawings until the respective stated maturity dates of such Notes. In connection therewith, the Stated Amount and the amounts from time to time available to be drawn by you hereunder by any Drawing (except in the case of a Drawing resulting from the delivery of a Final Drawing Notice) shall be reinstated when and to the extent, but only when and to the extent (i) you transfer to us on the date such Drawing is honored the proceeds of new Notes issued on such date or other funds furnished by or on behalf of the Authority to us for such purpose, in either case in an aggregate amount equal to the amount of such Drawing, or upon written notice from us (in the form of Annex K hereto) to you that we have been reimbursed by or on behalf of the Authority for any amount drawn hereunder by any Drawing and (ii) you have not received from us a Notice of No Issuance Notice in the form attached hereto as Annex G that has not been rescinded by your receipt of Rescission of Notice of No Issuance Notice in the form attached hereto as Annex H.

Upon your receipt of a Final Drawing Notice from us: (i) you are required to acknowledge and accept such Final Drawing Notice in accordance with such Final Drawing Notice and return the same to the Bank, (ii) the Stated Amount shall be permanently reduced to the principal amount and/or face amount of Notes outstanding at the time of your receipt of such Final Drawing Notice (or, subject to paragraph 2 of the Final Drawing Notice, at the end of the Business Day on which you received the Final Drawing Notice), plus interest accrued or to accrue thereon to maturity (as you shall certify upon your receipt of such Final Drawing Notice), and (iii) the Stated Amount shall be further permanently reduced upon the Bank honoring the Final Drawing, and the Stated Amount shall no longer be reinstated following any Drawings.

The Stated Amount of this Letter of Credit shall also be automatically decreased from time to time on each Decrease Date specified in, and in the amounts set forth in, a notice from us to you in the form attached hereto as Annex E (each, a "*Decrease Notice*"). As of the applicable Decrease Date and upon such decrease, the new Stated Amount shall not be less than your certification in the applicable Decrease Notice that such amount is not less than the sum of the outstanding principal amount of all outstanding discount Notes on such Decrease Date.

Each Drawing shall be dated the date of its presentation, and shall be presented to Bank of the West, Global Trade Operations, 13300 Crossroads Parkway North, City Of Industry, California 91746, as aforesaid, by telecopier (at telecopier number (323) 727-6405), Attention: Standby Team 2 or at any other number or numbers which may be designated by the Bank by written notice delivered to you, without further need of documentation, including the original of this Letter of Credit, it being understood that each Drawing so submitted is to be the sole operative instrument of drawing. Each Drawing shall be immediately confirmed by telephone (telephone number: (323-727-7339 or 323-727-6304 (or any other telephone number as may be designated by the Bank by written notice delivered to you)), notifying us of such Drawing; *provided*, that, the failure to confirm such Drawing by telephone shall not affect the validity or effectiveness of such Drawing. Each Drawing so presented shall have all blanks appropriately filled in and shall be signed by a person who purports to be an authorized officer of the Issuing and Paying Agent and each of the aforesaid certificates shall be either in the form of a letter on the letterhead of the Issuing and Paying Agent or a communication by telecopy delivered or transmitted to the Bank. If we receive any Drawing at such office, in strict conformity with the terms and conditions of this Letter of Credit, not later than 9:00 a.m., Los Angeles, California time on a Business Day prior to the termination hereof, we will honor the same by 12:00 noon., Los Angeles, California time on the same day in accordance with your payment instructions. If we receive any Drawings at such office, all in strict conformity with the terms and conditions of the Letter of Credit, after 9:00 a.m., Los Angeles, California time on a Business Day prior to the termination hereof, we will honor the same by 12:00 noon, Los Angeles, California time on the next succeeding Business Day in accordance with your payment instructions.

Payment under this Letter of Credit shall be made by the Bank by wire transfer of immediately available funds to the Issuing and Paying Agent in accordance with the instructions specified by the Issuing and Paying Agent in the related Drawing. Such account may be changed only by presentation to the Bank of a letter in form satisfactory to the Bank specifying a different account with the Issuing and Paying Agent and executed by the Issuing and Paying Agent.

This Letter of Credit shall expire at 2:00 p.m., Los Angeles, California time, on the date (the earliest of such date to occur referred to herein as the “*Termination Date*”) which is the earliest of (i) Letter of Credit Expiration Date, (ii) the later of the date on which we receive written notice from you in the form of Annex C attached hereto that a Commercial Papers Notes Credit Support Instrument has been substituted for this Letter of Credit in accordance with the Issuing and Paying Agent Agreement or the effective date of any such Commercial Papers Notes Credit Support Instrument (after we honor any properly presented and conforming Drawing, if any, on such date), (iii) the date on which we receive written notice from you in the form of Annex D attached hereto that there are no longer any Notes Outstanding within the meaning of the Indenture and that you elect to terminate the Letter of Credit or (iv) the earlier of (A) the 15th calendar day (or if such date is not a Business Day, the immediately succeeding Business Day) after the date on which you receive the Final Drawing Notice (or if you receive the Final Drawing Notice after 7:00 a.m. Los Angeles, California time on a Business Day, the 15th calendar day (or if such date is not a Business Day, the immediately succeeding Business Day) after the day after your receipt of the Final Drawing Notice) and (B) the date on which the Final Drawing is honored hereunder.

This Letter of Credit is transferable to any transferee whom you have certified to us has succeeded you as Issuing and Paying Agent under the Issuing and Paying Agent Agreement, and may be successively transferred in its entirety. Only you or your successor as Issuing and Paying Agent may make Drawings under this Letter of Credit. Upon the payment to you or to your account of the amount demanded hereunder, the Bank shall be fully discharged of its obligation under this Letter of Credit with respect to such demand for payment and shall not thereafter be obligated to make any further payments under this Letter of Credit in respect of such demand for payment to you or any other person who may have made to you or makes to you a demand for payment of principal of or interest on any Note. By paying to you an amount demanded in accordance herewith, the Bank makes no representations as to the correctness of the amount demanded. Transfer of the available balance under this Letter of Credit to such transferee shall be effected by the presentation to us of this Letter of Credit accompanied by a Transfer Request in the form of Annex B attached hereto signed by the transferor and the transferee (each a “*Transfer*”) together with the original Letter of Credit. Upon our receipt of your request, accompanied by a signature guarantee validating the signatures appearing thereon, we shall endorse the Letter of Credit and forward same to the new beneficiary (i.e. transferee). Transfers to designated foreign nationals and/or specially designated nationals are not permitted as such transfers are contrary to the U.S. Treasury Department or Foreign Assets Control Regulations. Upon the effective date of such transfer, as set forth in such Transfer, the transferee instead of the transferor shall without necessity of further action, be entitled to all the benefits of and rights under this Letter of Credit in the transferor’s place; *provided that*, in such case, any certificates of the Issuing and Paying Agent to be provided hereunder shall be signed by one who states therein that he is a duly authorized officer or agent of the transferee.

In connection with the termination of this Letter of Credit, this Letter of Credit shall be returned to us and marked “cancelled”. This Letter of Credit is intended to apply only to the payment of the principal amount of the Notes and interest accrued or to accrue thereon upon the maturity thereof.

This Letter of Credit sets forth in full our undertaking but not any of our rights (whether under applicable law or otherwise), and such undertaking but not any of our rights (whether under applicable law or otherwise) shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein (including, without limitation, the Notes), except only the Drawings referred to herein, the ISP98 (as hereinafter defined) and the Uniform Commercial Code of the State of New York; and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except for such Drawings.

If a Drawing does not conform to the terms and conditions of the Letter of Credit, we will use commercially reasonable efforts to give telephonic notice to the Issuing and Paying Agent thereof within the time set forth above for honor of such demand for payment; such notice, if given, to be confirmed in writing to the Issuing and Paying Agent within one Business Day after such notice, and we shall return all documents to you.

Unless otherwise specified herein or as otherwise provided in writing by us, communications with respect to this Letter of Credit shall be in writing and shall be addressed to the Bank at Bank of the West, Global Trade Operations, 13300 Crossroads Parkway North, City of Industry, CA 91746, Attn: Standby Team 2, specifically referring to the number of this Letter of Credit. For telephone assistance, please contact Standby Team 2 at telephone number (323) 727-7339 or (323) 727-6304 (or any other telephone number as may be designated by the Bank by written notice delivered to you), and have the Letter of Credit number available. Any communication to the Bank (other than Drawings) shall be in writing delivered to the Bank at the address set forth in this paragraph.

Communications with respect to this Letter of Credit shall be addressed to you at your address set forth on the cover page of this Letter of Credit, specifically referring to the number of this Letter of Credit, or as otherwise provided in writing by you to the Bank.

Except as expressly stated herein, this Letter of Credit is governed by, and construed in accordance with, the terms of the International Standby Practices 1998, International Chamber of Commerce Publication No. 590 (the "ISP98"). As to matters not governed by the ISP98, this Letter of Credit shall be governed by and construed in accordance with Article 5 of the Uniform Commercial Code of the State of New York, without regard to conflict of laws.

[SIGNATURE PAGE TO FOLLOW]

Very truly yours,

BANK OF THE WEST

By _____
Name: _____
Title: _____

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX A-1

**TO
BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

**[FORM OF CERTIFICATE FOR DRAWING]
CERTIFICATE FOR DRAWING IN CONNECTION
WITH THE PAYMENT OF PRINCIPAL AND INTEREST**

Bank of the West
Global Trade Operations
13300 Crossroads Parkway North
City of Industry, CA 91746
Attn: Standby Team 2

cc: Via Facsimile to (323) 727-6405

FOR THE URGENT ATTENTION OF STANDBY LETTER OF CREDIT DEPARTMENT

The undersigned, a duly authorized officer of the undersigned Issuing and Paying Agent (the "*Issuing and Paying Agent*"), hereby certifies to Bank of the West (the "*Bank*"), with reference to Irrevocable Letter of Credit No. MB***** (the "*Letter of Credit*," the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The undersigned is the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and the Indenture and is acting as the agent for the holders of the Notes.
2. The undersigned is making a drawing under the Letter of Credit with respect to a payment of the principal of and accrued interest on maturing Notes which mature, and for which payment is due, on _____, 20____.
3. The amount of the Drawing is equal to \$_____. Such amounts were computed in compliance with the terms and conditions of the Notes, the Issuing and Paying Agent Agreement and the Indenture. The amount of the Drawing being drawn in respect of the payment of principal of and accrued interest on maturing Notes does not exceed the Stated Amount of the Letter of Credit. The amount demanded hereby does not include any amount in respect of the Notes registered in the name of the City or the Authority or, to the best knowledge of the Issuing and Paying Agent, any nominee for or any Person who owns such Notes for the benefit of the City or the Authority.

4. Each such Note was authenticated and delivered by us (or a predecessor Issuing and Paying Agent) pursuant to authority under the Indenture.

5. Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will deposit the same directly into the applicable Credit Enhanced Note Account maintained by the Issuing and Paying Agent pursuant to the Issuing and Paying Agent Agreement and shall apply the same directly to the payment when due of the principal amount of the Notes and the interest amount owing on account of the Notes pursuant to the Issuing and Paying Agent Agreement, (b) no portion of said amount shall be applied by the undersigned for any other purpose, (c) no portion of said amount shall be commingled with other funds held by the undersigned, except for other funds drawn under the Letter of Credit, and (d) when such Notes have been presented for payment and paid by us, the undersigned will cancel such matured Notes.

6. Payment by the Bank pursuant to this drawing shall be made to [_____, ABA Number _____, Account Number _____, Attention _____.]

7. The undersigned is the duly authorized officer of the Issuing and Paying Agent.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of _____ the _____ day of _____.

_____, as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX A-2

**TO
BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

**[FORM OF CERTIFICATE FOR FINAL DRAWING]
CERTIFICATE FOR FINAL DRAWING**

Bank of the West
Global Trade Operations
13300 Crossroads Parkway North
City of Industry, CA 91746
Attn: Standby Team 2

cc: Via Facsimile to (323) 727-6405

FOR THE URGENT ATTENTION OF STANDBY LETTER OF CREDIT DEPARTMENT

The undersigned, a duly authorized officer of the undersigned Issuing and Paying Agent (the “*Issuing and Paying Agent*”), hereby certifies to Bank of the West (the “*Bank*”), with reference to Irrevocable Letter of Credit No. MB***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The undersigned is the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and the Indenture and is acting as the agent for the holders of the Notes.
2. The Issuing and Paying Agent has received the Final Drawing Notice.
3. The undersigned is making a drawing under the Letter of Credit with respect to a payment of the principal of and interest to accrue through the maturity thereof.
4. The amount of the Drawing is equal to \$_____. Such amounts were computed in compliance with the terms and conditions of the Notes, the Issuing and Paying Agent Agreement and the Indenture. The amount of the Drawing being drawn in respect of the payment of principal of and accrued interest on maturing Notes does not exceed the Stated Amount of the Letter of Credit. The amount demanded hereby does not include any amount in respect of the Notes registered in the name of the City or the

Authority or, to the best knowledge of the Issuing and Paying Agent, any nominee for or any Person who owns such Notes for the benefit of the City or the Authority.

5. Each such Note was authenticated and delivered by us (or a predecessor Issuing and Paying Agent) pursuant to authority under the Indenture.

6. Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will deposit the same directly into the applicable Credit Enhanced Note Account maintained by the Issuing and Paying Agent pursuant to the Issuing and Paying Agent Agreement and shall apply the same directly to the payment when due of the principal amount of the Notes and the interest amount owing on account of the Notes pursuant to the Issuing and Paying Agent Agreement, (b) no portion of said amount shall be applied by the undersigned for any other purpose, (c) no portion of said amount shall be commingled with other funds held by the undersigned, except for other funds drawn under the Letter of Credit, and (d) when such Notes have been presented for payment and paid by us, the undersigned will cancel such matured Notes.

7. This Certificate is being presented to the Bank on a date which is no later than the 14th calendar day after receipt by the Issuing and Paying Agent of the Final Drawing Notice.

8. Payment by the Bank pursuant to this drawing shall be made to [_____, ABA Number _____, Account Number _____, Attention _____.]

9. The undersigned is the duly authorized officer of the Issuing and Paying Agent.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of _____ the _____ day of _____.

_____, as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX B

TO

**BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

REQUEST FOR TRANSFER

Date: _____

Bank of the West
Global Trade Operations
13300 Crossroads Parkway North
City of Industry, CA 91746
Attn: Standby Team 2

cc: Via Facsimile to (323) 727-6405

Re: Bank of the West Irrevocable Letter of Credit No. MB*****

We, the undersigned "Transferor", hereby irrevocably transfer all of our rights to draw under the above referenced Letter of Credit (the "*Letter of Credit*") in its entirety to:

NAME OF TRANSFEREE

(Print Name and complete address of the Transferee)

"Transferee"

ADDRESS OF TRANSFEREE

CITY, STATE/COUNTRY ZIP

We hereby certify the Transferee has succeeded us as Issuing and Paying Agent under the Indenture.

In accordance with the ISP98, Rule 6, regarding transfer of drawing rights, all rights of the undersigned Transferor in such Letter of Credit are transferred to the Transferee, who shall have the sole rights as beneficiary thereof, including sole rights relating to any amendments whether increases or extensions or other amendments and whether now existing or hereafter made. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the undersigned Transferor.

The original Letter of Credit, including amendments to this date, is attached and the undersigned Transferor requests that you endorse an acknowledgment of this transfer on the reverse thereof. The undersigned Transferor requests that you notify the Transferee of this Letter of Credit in such form and manner as you deem appropriate, and the terms and conditions of the Letter of Credit as transferred. The undersigned Transferor acknowledges that you incur no obligation hereunder and that the transfer shall not be effective until you have expressly consented to effect the transfer by notice to the Transferee.

Payment of transfer fee of U.S. \$[●] is for the account of the Authority, who agrees to pay you on demand any expense or cost you may incur in connection with the transfer. Receipt of such shall not constitute consent by you to effect the transfer.

Transferor represents and warrants to Transferring Bank that (i) our execution, delivery, and performance of this request to Transfer (a) are within our powers (b) have been duly authorized (c) constitute our legal, valid, binding and enforceable obligation (d) do not contravene any charter provision, by-law, resolution, contract, or other undertaking binding on or affecting us or any of our properties (e) do not require any notice, filing or other action to, with, or by any governmental authority (f) the enclosed Letter of Credit is original and complete, (g) there is no outstanding demand or request for payment or transfer under the Letter of Credit affecting the rights to be transferred, (h) the Transferee's name and address are correct and complete and the Transferee's use of the Letter of Credit as transferred and the transactions underlying the Letter of Credit and the requested Transfer do not violate any applicable United States or other law, rule or regulation.

Following the Bank's receipt of this request accompanied by the original Letter of Credit and the Transferor's signature guarantee validating the signatures appearing below, the Effective Date of the transfer shall be the date hereafter on which the Bank endorses the Letter of Credit and forwards the same to the Transferee as successor beneficiary.

The Effective Date shall be the date hereafter on which Transferring Bank effects the requested transfer by acknowledging this request and giving notice thereof to Transferee.

WE WAIVE ANY RIGHT TO TRIAL BY JURY THAT WE MAY HAVE IN ANY ACTION OR PROCEEDING RELATING TO OR ARISING OUT OF THIS TRANSFER.

(Signature Page Follows)

This Request is made subject to ISP98 and is subject to and shall be governed by the laws of the State of New York, without regard to principles of conflict of laws.

Sincerely yours,

(Print Name of Transferor)

(Transferor's Authorized Signature)

(Print Authorized Signers Name and Title)

(Telephone Number/Fax Number)

| |
|--|
| SIGNATURE GUARANTEED |
| Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has, been identified by us in compliance with USA PATRIOT Act procedures of our bank. |
| _____ (Print Name of Bank) |
| _____ (Address of Bank) |
| _____ (City, State, Zip Code) |
| _____ (Print Name and Title of Authorized Signer) |
| _____ (Authorized Signature) |

Acknowledged:

(Print Name of Transferee)

(Transferee's Authorized Signature)

(Print Authorized Signers Name and Title)

(Telephone Number/Fax Number)

| |
|--|
| SIGNATURE GUARANTEED |
| Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has, been identified by us in compliance with USA PATRIOT Act procedures of our bank. |
| _____ (Print Name of Bank) |
| _____ (Address of Bank) |
| _____ (City, State, Zip Code) |
| _____ (Print Name and Title of Authorized Signer) |
| _____ (Authorized Signature) |

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX C

TO

**BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

**[FORM OF CERTIFICATE RE: SUBSTITUTE COMMERCIAL PAPER NOTES
CREDIT SUPPORT INSTRUMENT]
CERTIFICATE RE: SUBSTITUTE COMMERCIAL PAPER NOTES CREDIT
SUPPORT INSTRUMENT**

Bank of the West
Global Trade Operations
13300 Crossroads Parkway North
City of Industry, CA 91746
Attn: Standby Team 2

cc: Via Facsimile to (323) 727-6405

The undersigned, a duly authorized officer of the undersigned Issuing and Paying Agent (the “*Issuing and Paying Agent*”), hereby certifies to Bank of the West (the “*Bank*”), with reference to Irrevocable Letter of Credit No. MB***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The undersigned is the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and the Indenture for the holders of the Notes.
2. The conditions precedent to the acceptance of a substitute Commercial Paper Notes Credit Support Instrument set forth in the Issuing and Paying Agent Agreement have been satisfied.
3. A Commercial Paper Notes Credit Support Instrument in full and complete substitution for the Letter of Credit has been accepted by the Issuing and Paying Agent and is in effect.
4. There will be no further Drawings requested from the Bank under the Letter of Credit.

5. Upon receipt by the Bank of this Certificate the Letter of Credit shall terminate with respect to all outstanding Notes, and the Letter of Credit is returned to you herewith for cancellation.

6. No payment is demanded of you in connection with this notice.

7. The undersigned is the duly authorized officer of the Issuing and Paying Agent.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of _____ the _____ day of _____.

_____, as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX D

TO

**BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

**[FORM OF CERTIFICATE RE: NO OUTSTANDING NOTES]
CERTIFICATE RE: NO OUTSTANDING NOTES**

Bank of the West
Global Trade Operations
13300 Crossroads Parkway North
City of Industry, CA 91746
Attn: Standby Team 2

cc: Via Facsimile to (323) 727-6405

The undersigned, a duly authorized officer of the undersigned Issuing and Paying Agent (the “*Issuing and Paying Agent*”), hereby certifies to Bank of the West (the “*Bank*”), with reference to Irrevocable Letter of Credit No. MB***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The undersigned is the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and the Indenture for the holders of the Notes.
2. No Notes (other than Notes with respect to which another Commercial Paper Notes Credit Support Instrument is in effect) remain outstanding under the Issuing and Paying Agent Agreement nor does the Authority intend to issue any additional Notes under the Issuing and Paying Agent Agreement.
3. There will be no further Drawings requested from the Bank under the Letter of Credit, and we hereby elect to terminate the Letter of Credit and return such Letter of Credit to you herewith for cancellation.
4. No payment is demanded of you in connection with this notice.
5. The undersigned is the duly authorized officer of the Issuing and Paying Agent.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of the _____ day of _____.

_____, as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX E

TO

**BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*****
AMENDMENT NO. [_____]**

**[FORM OF CERTIFICATE RE: DECREASE IN STATED AMOUNT]
CERTIFICATE RE: DECREASE IN STATED AMOUNT**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of the West (the “*Bank*”), hereby certifies to _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. MB***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, the Stated Amount of the Letter of Credit shall be decreased in the amount of \$_____, effective as of _____ (the “*Decrease Date*”). The new Stated Amount of the Letter of Credit is \$_____, which by your acknowledgment hereto you certify that such amount is not less than the sum of the outstanding principal amount of the Notes on such Decrease Date plus interest to accrue thereon to the maturity date thereof. You shall attach this Notice of Decrease in Stated Amount to the Letter of Credit and treat this Notice of Decrease in Stated Amount as an amendment to the Letter of Credit. All other terms and conditions of the Letter of Credit remain unchanged.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of the _____ day of _____.

BANK OF THE WEST, as the
Bank

By _____
Name: _____
Title: _____

Acknowledged as of _____, _____
by _____,
as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX F

TO

**BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*****
AMENDMENT NO. []**

**[FORM OF NOTICE OF EXTENSION OF LETTER OF CREDIT EXPIRATION DATE]
NOTICE OF EXTENSION OF LETTER OF CREDIT EXPIRATION DATE**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of the West (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. MB***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The Letter of Credit Expiration Date has been extended to _____.
2. This Notice of Extension should be attached to the Letter of Credit and be treated as an amendment thereof.
3. All other terms and conditions of the Letter of Credit remain unchanged.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of Extension as of the day of _____.

BANK OF THE WEST

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX G

TO

**BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

**[FORM OF NOTICE OF NO ISSUANCE]
NOTICE OF NO ISSUANCE**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of the West (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. MB***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. In accordance with the terms of the Reimbursement Agreement, an Event of Default (as defined in the Reimbursement Agreement) has occurred and is continuing.

2. Subject to the following sentence, you shall cease authenticating Notes, as provided in Section 3(b) of the Issuing and Paying Agent Agreement, unless and until you receive from us a Rescission of Notice of No Issuance in the form of Annex H to the Letter of Credit. If you receive this Notice of No Issuance after 7:00 a.m., Los Angeles, California time, on a Business Day you shall cease authenticating Notes on the next Business Day.

3. This Notice of No Issuance shall not affect our obligation to honor demands for payment under the Letter of Credit with respect to Notes authenticated prior to your receipt of this Notice of No Issuance and outstanding on the date hereof (or, subject to paragraph 2 above, on the same Business Day that you receive this Notice of No Issuance), and you shall continue to have the right to draw under the Letter of Credit to pay the principal of and accrued interest on maturing Notes authenticated prior to your receipt of this Notice of No Issuance (or, subject to paragraph 2 above, authenticated on the same Business Day that you receive this Notice of No Issuance).

4. Upon receipt by you of this Notice of No Issuance you are notified (i) that the Stated Amount available to be drawn under the Letter of Credit will not be reinstated in accordance with the Letter of Credit, (ii) that the Stated Amount of the Letter of Credit

shall be permanently reduced to the principal amount and interest accrued or to accrue thereon to maturity of Notes authenticated prior to your receipt of this Notice of No Issuance and outstanding on the date hereof (or, subject to paragraph 2 above, on the same Business Day that you receive this Notice of No Issuance) (“*Outstanding Amount*”), and (iii) that the Stated Amount of the Letter of Credit shall be further permanently reduced following the Bank honoring the related Drawing upon the maturity of any such outstanding Notes, and shall be further permanently reduced from time to time as otherwise may be provided in the Letter of Credit.

You are hereby requested under the terms of the Letter of Credit to acknowledge receipt of this Notice of No Issuance, make certain undertakings, and certify the Outstanding Amount in the manner set forth below.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of No Issuance as of the _____ day of _____.

BANK OF THE WEST

By _____
Name: _____
Title: _____

ACCEPTED AND ACKNOWLEDGED BY:

_____, as Issuing and Paying Agent, hereby accepts this Notice of No Issuance on _____, 20__ (the “*Acceptance Date*”) and acknowledges that it has ceased issuing Notes as of the Acceptance Date. _____, as Issuing and Paying Agent, hereby certifies that the Outstanding Amount (which is the principal amount of Notes authenticated prior to our receipt of this Notice of No Issuance and outstanding on the date hereof plus interest thereon to maturity) equals \$_____, and therefore the Stated Amount of the Letter of Credit is hereby permanently reduced to such amount as of the Acceptance Date.

_____, AS ISSUING AND PAYING AGENT

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX H

TO

**BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

**[FORM OF RESCISSION OF NOTICE OF NO ISSUANCE]
RESCISSION OF NOTICE OF NO ISSUANCE**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of the West (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. MB***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The Bank has previously delivered to you a Notice of No Issuance dated _____, 20__ (the “*Subject Notice of No Issuance*”).
2. The Bank rescinds the Subject Notice of No Issuance as of the date set forth above the Bank’s signature below (the “*Effective Date*”).
3. You shall may recommence authenticating Notes as of the Effective Date in accordance with Section 3(b) of the Issuing and Paying Agent Agreement.
4. We advise you that the Stated Amount available to be drawn under the Letter of Credit has been reinstated in accordance with the Letter of Credit.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Rescission of Notice of No Issuance as of the _____ day of _____.

BANK OF THE WEST

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX I

TO

**BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

**[FORM OF FINAL DRAWING NOTICE]
FINAL DRAWING NOTICE**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of the West (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. MB***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. In accordance with the terms of the Reimbursement Agreement, an Event of Default (as defined in the Reimbursement Agreement) has occurred and is continuing.

2. Subject to the following sentence, you shall cease authenticating Notes, as provided in Section 3(b) of the Issuing and Paying Agent Agreement. If you receive this notice after 7:00 a.m. Los Angeles, California time on a Business Day, you shall cease authenticating Notes on the next Business Day.

3. The Bank hereby notifies the Issuing and Paying Agent that (i) effective upon receipt of this Final Drawing Notice, the Stated Amount available to be drawn under the Letter of Credit will not be reinstated in accordance with the Letter of Credit, (ii) the Issuing and Paying Agent is instructed to make the final Drawing under the Letter of Credit to provide for the payment of the principal of and interest on Notes issued in accordance with the Issuing and Paying Agent Agreement which are outstanding and are maturing or are hereafter to mature, and (iii) the Termination Date of the Letter of Credit will occur and the Letter of Credit will expire on the earlier of (a) the date which is the 15th calendar day after the date of receipt by the Issuing and Paying Agent of this Final Drawing Notice (or if the Issuing and Paying Agent receives this Final Drawing Notice after 7:00 a.m. Los Angeles, California time on a Business Day, the 15th calendar after the day after receipt by the Issuing and Paying Agent of this Final Drawing Notice), and (b) the date on which the Drawing resulting from the delivery of this notice is honored by us. The Final Drawing under the Letter of Credit shall not provide for the payment of

Notes that are issued after receipt by the Issuing and Paying Agent of this Final Drawing Notice or a Notice of No Issuance Notice (or, subject to paragraph 2 above and paragraph 2 of any Notice of No Issuance Notice, Notes that are issued on or after the Business Day after receipt by the Issuing and Payment Agent of this Final Drawing Notice or a Notice of No Issuance).

You are hereby requested under the terms of the Letter of Credit to acknowledge receipt of this Final Drawing Notice and make certain undertakings in the manner set forth below.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Final Drawing Notice as of the _____ day of _____.

BANK OF THE WEST

By _____
Name: _____
Title: _____

ACCEPTED AND ACKNOWLEDGED BY:

_____, as Issuing and Paying Agent, hereby accepts this Final Drawing Notice on _____, 20____ (the "Acceptance Date") and acknowledges that it has ceased issuing Notes as of the Acceptance Date.

_____, AS ISSUING AND PAYING AGENT

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX J

FORM OF SIGHT DRAFT

**BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

Bank of the West
Global Trade Operations
13300 Crossroads Parkway North
City of Industry, CA 91746
Attn: Standby Team 2

This sight draft is presented to you on _____, ____ for the amount of
\$_____ for the purposes set forth in the accompanying Certificate for Drawing in
connection with the payment of principal and interest.

_____, as Issuing and Paying
Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX K

**TO
BANK OF THE WEST
IRREVOCABLE LETTER OF CREDIT NO. MB*******

[FORM OF NOTICE OF REINSTATEMENT]

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of the West (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. MB***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. On _____, 20____, the Bank honored a _____ Drawing under the Letter of Credit in the amount of \$_____.
2. The Bank has been reimbursed by or on behalf of the Authority in the amount of \$_____ for such Drawing.
3. The Stated Amount available to be drawn by you under the Letter of Credit is hereby increased in the amount of \$_____ on the date hereof.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of Reinstatement as of the _____ day of _____.

BANK OF THE WEST

By _____
Name: _____
Title: _____

EXHIBIT B

FORM OF BANK NOTE

City of San Diego
\$75,000,000

Subordinated Water Revenue Commercial Paper Notes, Series A
(Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of
the Water Utility Fund)

January [], 2017

For Value Received, the undersigned, THE CITY OF SAN DIEGO (the “City”), hereby promises to pay to the order of BANK OF THE WEST (the “Bank”), in the manner and on the dates provided in the Reimbursement Agreement, dated as of January 1, 2017 (the “Reimbursement Agreement”), by and between the City of San Diego, a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California (the “City”) and the Bank, in lawful money of the United States of America and in immediately available funds in an amount equal to the aggregate outstanding principal amount of the Unreimbursed Amounts and Bank Loans from time to time owing to the Bank under the Reimbursement Agreement. Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Reimbursement Agreement.

The City further promises to pay interest from the date hereof on the outstanding principal amount hereof and unpaid interest hereon from time to time at the rates and times and in all cases in accordance with the terms of the Reimbursement Agreement. The Bank may endorse its books and records relating to this Bank Note with appropriate notations evidencing the amounts drawn under the Letter of Credit and payments of principal hereunder as contemplated by the Reimbursement Agreement.

This Bank Note is issued pursuant to, is entitled to the benefits of, and is subject to, the provisions of the Reimbursement Agreement, as further supplemented and amended in accordance with the terms thereof and the Reimbursement Agreement. Voluntary prepayments may be made hereon, certain prepayments are required to be made hereon, and this Bank Note may be declared due prior to the expressed maturity hereof, all on the terms and in the manner provided for in the Reimbursement Agreement.

The parties hereto, including the undersigned maker and all guarantors, endorsers and pledgors that may exist at any time with respect hereto, hereby waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Bank Note and assent to the extensions of the time of payment or forbearance or other indulgence without notice.

The obligations of the City under this Bank Note constitute “Subordinated Credit Provider Reimbursement Obligations” as defined in the Agreement. This Bank Note is secured by and payable from Net System Revenues on a basis on a parity with the Subordinated Obligations.

This Bank Note and the obligations of the City hereunder shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the City has caused this Bank Note to be signed in its corporate name as an instrument by its duly authorized officer on the date and in the year first above written.

THE CITY OF SAN DIEGO

By: _____
Name:
Title:

ATTEST:

By: _____
Elizabeth S. Maland
City Clerk

APPROVED AS TO FORM:

JAN I. GOLDSMITH, City Attorney

By: _____
Brant C. Will
Deputy City Attorney

EXHIBIT C

FORM OF AUTHORITY LETTER OF REPRESENTATIONS

City of San Diego
\$75,000,000

Subordinated Water Revenue Commercial Paper Notes, Series A
(Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of
the Water Utility Fund)

January [], 2017

City of San Diego

[]

San Diego, California []

Bank of the West

[]

[]

Ladies and Gentlemen:

The City of San Diego, a municipal corporation and a charter city duly organized and existing under its Charter and the Constitution of the State of California (the “City”) desires to finance the acquisition, construction, installation and improvements to its water system (the “Water System”). In order to effect the acquisition, construction, installation and improvements to the Water System, the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) has agreed from time to time to sell certain improvements and additions (comprised of various components, each, a “Component”) to the Water System and the City has agreed from time to time to purchase certain Components as specified in certain supplements to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as amended from time to time (collectively and as further supplemented from time to time, the “Agreement”), each by and between the City and the Corporation.

The Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers authority duly organizing and existing under the laws of the State of California (the “Authority”) has agreed to provide assistance to the City by the financing of additional components of the acquisition, construction, installation and improvements to the Water System including the reimbursement of the City for eligible expenditures incurred to pay for such additional components of the acquisition, construction, installation and improvements to the Water System by the issuance of its Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Commercial Paper Notes”) which may be issued from time to time in an aggregate principal amount of up to \$75,000,000 for purposes as permitted by the Indenture hereinafter mentioned including [].

The Commercial Paper Notes will be issued from time to time pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 et seq. of the

Government Code of the State, as amended (the “Act”), and the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplemental Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), amending that certain Indenture, dated as of January 1, 2009, as supplemented and amended from time to time.

In order to support the payment of the Commercial Paper Notes as the same shall become due and payable pursuant to the provisions of the Indenture, the City has requested that the Bank issue in favor of the Issuing and Paying Agent (as hereinafter defined), for the account of the City and for the benefit of the holders from time to time of the Commercial Paper Notes, an irrevocable transferable letter of credit in the initial stated amount of \$[Stated Amount] (as completed, executed and issued, the “Letter of Credit”).

In order to induce the Bank to issue the Letter of Credit and to make Bank Loans under the Reimbursement Agreement, dated as of January 1, 2017 (the “Reimbursement Agreement”), by and between the City and Bank of the West, the City has agreed to reimburse the Bank for all amounts advanced by it under the Letter of Credit and to pay interest on such amounts as well as certain costs, fees and expenses, and to request the Authority to deliver this Letter of Representations to the Bank, all as provided in the Reimbursement Agreement. For purposes of this Letter of Representations, capitalized terms used herein which are not defined herein shall have the meanings set forth in the Reimbursement Agreement.

To induce the Bank to issue the Letter of Credit and to make Bank Loans under the Reimbursement Agreement, the Authority hereby represents, warrants and agrees with the Bank as follows as of the date hereof and as a condition to the making of a Bank Loan in payment of an Unreimbursed Amount on the Liquidity Period End Date therefor:

(a) The Authority is a joint powers agency organized and existing under the provisions of the Constitution of the State of California. The Authority has all requisite power and authority to enter into and perform its obligations under the Commercial Paper Documents to which it is a party.

(b) The execution, delivery and performance of the Commercial Paper Documents by the Authority are within the Authority’s powers and have been duly authorized by all necessary action by the Authority. The execution, delivery and performance of the Commercial Paper Documents by the Authority will not (i) violate the joint powers agreement of the Authority or any other law, rule, regulation, order, writ, judgment, injunction, decree, determination or award, (ii) require any consent or approval of any Person (other than those that have been obtained), or (iii) conflict with, result in a breach of or constitute a default under any indenture, instrument or agreement to which the Authority is a party or is subject, or by which the Authority or its property, is bound. The Authority is not in violation of or default under any such Legal Requirement, and no condition exists that would, with the giving of notice or lapse of time, or both, constitute such a violation or default.

(c) The Commercial Paper Documents to which the Authority is a party have each been duly executed by the Authority and are legally valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms, except as

enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws affecting creditors' rights generally and by general principles of equity.

(d) Except as disclosed in the Offering Memorandum, there is no action, suit, investigation, proceeding or arbitration, at law or in equity or before or by any foreign or domestic court or other Governmental Authority (a "Legal Action") pending or, to the knowledge of the Authority, threatened against or affecting the Authority which could reasonably be expected to result in a Material Adverse Effect. Except as disclosed in the Offering Memorandum, there is no Legal Action pending or, to the knowledge of the Authority, threatened against or affecting the Authority questioning the validity or the enforceability of any Commercial Paper Documents.

(e) The Authority is in compliance in all material respects with all applicable Legal Requirements, except in such instances in which (i) such Legal Requirement is being contested in good faith by appropriate proceedings diligently conducted or (ii) the failure to comply therewith would not have a Material Adverse Effect.

(f) The information contained in the Offering Memorandum is correct in all material respects and does not contain an 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; provided, that no representation is made with respect to information included in the Offering Memorandum concerning (i) the Bank, furnished in writing by the Bank expressly for inclusion therein, (ii) the Dealer, furnished in writing by the Dealer expressly for inclusion therein, or (iii) The Depository Trust Company, furnished in writing by The Depository Trust Company expressly for inclusion therein.

(g) No Event of Default or "event of default" presently exists under any of the Commercial Paper Documents; nor has the Authority or any other party thereto waived or deferred performance of any material obligation under any Commercial Paper Document.

(h) The execution, delivery and performance by the Authority of the Commercial Paper Documents to which it is a party do not and will not require registration with, or the consent or approval of, or any other action by, any federal, State or other governmental authority or regulatory body other than those which have been made or given and are in full force and effect (except for any federal securities laws or Blue Sky regulations, as to which no representation is given).

(i) Neither the Authority nor any member of the Authority (a) is currently the subject of any Sanctions or is in violation of any Anti-Corruption Laws, (b) is located, organized or residing in any Designated Jurisdiction, or (c) is or has been (within the previous five (5) years) engaged in any transaction with any Person who is now or was then the subject of Sanctions or who is located, organized or residing in any Designated Jurisdiction.

Very truly yours,

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

By: _____
[Sherri S. Lightner]
Chair

ATTEST:

By: _____
Elizabeth S. Maland
Secretary

APPROVED AS TO FORM:

GENERAL COUNSEL TO THE AUTHORITY

By: _____
Brant C. Will
Deputy General Counsel

EXHIBIT D

FORM OF CORPORATION LETTER OF REPRESENTATIONS

City of San Diego
\$75,000,000

Subordinated Water Revenue Commercial Paper Notes, Series A
(Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of
the Water Utility Fund)

January [], 2017

City of San Diego

[]

San Diego, California []

Bank of the West

[]

[]

Ladies and Gentlemen:

The City of San Diego, a municipal corporation and a charter city duly organized and existing under its Charter and the Constitution of the State of California (the "City") desires to finance the acquisition, construction, installation and improvements to its water system (the "Water System"). In order to effect the acquisition, construction, installation and improvements to the Water System, the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") has agreed from time to time to sell certain improvements and additions (comprised of various components, each, a "Component") to the Water System and the City has agreed from time to time to purchase certain Components as specified in certain supplements to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as amended from time to time (collectively and as further supplemented from time to time, the "Agreement"), each by and between the City and the Corporation.

The Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers authority duly organizing and existing under the laws of the State of California (the "Authority") has agreed to provide assistance to the City by the financing of additional components of the acquisition, construction, installation and improvements to the Water System including the reimbursement of the City for eligible expenditures incurred to pay for such additional components of the acquisition, construction, installation and improvements to the Water System by the issuance of its Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "Commercial Paper Notes") which may be issued from time to time in an aggregate principal amount of up to \$75,000,000 for purposes as permitted by the Indenture hereinafter mentioned including [].

The Commercial Paper Notes will be issued from time to time pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 et seq. of the

Government Code of the State, as amended (the “Act”), and the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplemental Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), amending that certain Indenture, dated as of January 1, 2009, as supplemented and amended from time to time.

In order to support the payment of the Commercial Paper Notes as the same shall become due and payable pursuant to the provisions of the Indenture, the City has requested that the Bank issue in favor of the Issuing and Paying Agent (as hereinafter defined), for the account of the City and for the benefit of the holders from time to time of the Commercial Paper Notes, an irrevocable transferable letter of credit in the initial stated amount of \$[Stated Amount] (as completed, executed and issued, the “Letter of Credit”).

In order to induce the Bank to issue the Letter of Credit and to make Bank Loans under the Reimbursement Agreement, dated as of January 1, 2017 (the “Reimbursement Agreement”), by and between the City and Bank of the West, the City has agreed to reimburse the Bank for all amounts advanced by it under the Letter of Credit and to pay interest on such amounts as well as certain costs, fees and expenses, and to request the Corporation to deliver this Letter of Representations to the Bank, all as provided in the Reimbursement Agreement. For purposes of this Letter of Representations, capitalized terms used herein which are not defined herein shall have the meanings set forth in the Reimbursement Agreement.

To induce the Bank to issue the Letter of Credit and to make Bank Loans under the Reimbursement Agreement, the Corporation hereby represents, warrants and agrees with the Bank as follows as of the date hereof and as a condition to the making of a Bank Loan in payment of an Unreimbursed Amount on the Liquidity Period End Date therefor:

(a) The Corporation is a non-profit public benefit corporation duly organized and existing under its articles of incorporation and the provisions of the Constitution of the State of California. The Corporation has all requisite power and authority to enter into and perform its obligations under the Commercial Paper Documents to which it is a party.

(b) The execution, delivery and performance of the Agreement and the Assignment Agreement by the Corporation are within the Corporation’s powers and have been duly authorized by all necessary action by the Corporation. The execution, delivery and performance of Agreement and the Assignment Agreement by the Corporation will not (i) violate the articles of incorporation and bylaws of the Corporation or any other law, rule, regulation, order, writ, judgment, injunction, decree, determination or award, (ii) require any consent or approval of any Person (other than those that have been obtained), or (iii) conflict with, result in a breach of or constitute a default under any indenture, instrument or agreement to which the Corporation is a party or is subject, or by which the Corporation or its property, is bound. The Corporation is not in violation of or default under any such Legal Requirement, and no condition exists that would, with the giving of notice or lapse of time, or both, constitute such a violation or default.

(c) The Agreement and the Assignment Agreement have each been duly executed by the Corporation and are legally valid and binding obligations of the Corporation, enforceable against the Corporation in accordance with their respective terms, except as enforceability may

be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws affecting creditors' rights generally and by general principles of equity.

(d) Except as disclosed in the Offering Memorandum, there is no action, suit, investigation, proceeding or arbitration, at law or in equity or before or by any foreign or domestic court or other Governmental Authority (a "Legal Action") pending or, to the knowledge of the Corporation, threatened against or affecting the Corporation which could reasonably be expected to result in a Material Adverse Effect. Except as disclosed in the Offering Memorandum, there is no Legal Action pending or, to the knowledge of the Corporation, threatened against or affecting the Corporation questioning the validity or the enforceability of any Commercial Paper Documents.

(e) The Corporation is in compliance in all material respects with all applicable Legal Requirements, except in such instances in which (i) such Legal Requirement is being contested in good faith by appropriate proceedings diligently conducted or (ii) the failure to comply therewith would not have a Material Adverse Effect.

(f) No Event of Default or "event of default" presently exists under the Agreement or the Assignment Agreement; nor has the Corporation or any other party thereto waived or deferred performance of any material obligation under the Agreement or the Assignment Agreement.

(g) The execution, delivery and performance by the Corporation of the Agreement and the Assignment Agreement do not and will not require registration with, or the consent or approval of, or any other action by, any federal, State or other governmental authority or regulatory body other than those which have been made or given and are in full force and effect (except for any federal securities laws or Blue Sky regulations, as to which no representation is given).

(h) The Corporation (a) is not currently the subject of any Sanctions or in violation of any Anti-Corruption Laws, (b) is not located, organized or residing in any Designated Jurisdiction, or (c) is not nor has been (within the previous five (5) years) engaged in any transaction with any Person who is now or was then the subject of Sanctions or who is located, organized or residing in any Designated Jurisdiction.

Very truly yours,

SAN DIEGO FACILITIES AND EQUIPMENT
LEASING CORPORATION

By: _____
Kevin L. Faulconer
President

EXHIBIT E
LITIGATION

FEE AGREEMENT
Dated [●], 2017

Reference is hereby made to (i) that certain Reimbursement Agreement dated as of [●], 2017 (as amended, supplemented or otherwise modified from time to time, the “*Agreement*”), between Bank of the West (the “*Bank*”) and the City of San Diego (the “*City*”), relating to the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes, Series A (the “*Notes*”), and (ii) that certain Irrevocable Letter of Credit dated [●], 2017, issued pursuant to the Agreement, supporting the Notes. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

The purpose of this Fee Agreement is to set forth the agreement between the Bank and the City with respect to the Letter of Credit Fees (as defined below) and certain other fees payable to the Bank.

ARTICLE I. FEES.

Section 1.1. Letter of Credit Fees. The City hereby agrees to pay to the Bank quarterly in arrears on the first Business Day of each January, April, July and October occurring prior to the Termination Date and on the Termination Date an amount equal to the rate per annum corresponding to the level below associated with the applicable Rating (as defined below), as specified below (the “*Letter of Credit Fee Rate*”), on the daily average Stated Amount of the Letter of Credit and on the basis of a 365 or 366 day year, as applicable, and the actual number of days elapsed (the “*Letter of Credit Fee*”) during each related period:

| LEVEL | MOODY’S RATING | FITCH RATING | LETTER OF CREDIT FEE RATE |
|---------|----------------|---------------|---------------------------|
| Level 1 | Aa3 or better | AA- or better | 0.30% |
| Level 2 | A1 | A+ | 0.30% |
| Level 3 | A2 | A | 0.40% |
| Level 4 | A3 | A- | 0.50% |
| Level 5 | Baa1 | BBB+ | 0.60% |
| Level 6 | Baa2 | BBB | 0.70% |
| Level 7 | Baa3 | BBB- | 0.80% |
| Level 8 | Below Baa3 | Below BBB- | 2.30% |

The term “*Rating*” as used above shall have the meaning given to the term “Subordinated Obligation Rating” set forth in the Agreement. If Ratings are in effect from Fitch and Moody’s and the Ratings established by Fitch and Moody’s fall within different levels, the level corresponding to the lower of the two levels shall apply (it being understood that “*Level 1*” is the “highest” level and “*Level 8*” is the “lowest” level). Any change in the Letter of Credit Fee Rate resulting from a change in a Rating shall be and become effective as of and on the date of the announcement of the change in such Rating. References to ratings above are references to

rating categories as presently determined by the Rating Agencies and in the event of adoption of any new or changed rating system by any such Rating Agency, including, without limitation, any recalibration or realignment of the long-term debt rating of any Subordinated Obligations in connection with the adoption of a “*global*” rating scale, each of the Ratings from the Rating Agency in question referred to above shall be deemed to refer to the rating category under the new rating system which most closely approximates the applicable rating category as currently in effect. The City acknowledges, and the Bank agrees, that on the Closing Date, the Letter of Credit Fee Rate is that specified above for “*Level 1.*” Upon the occurrence and during the continuance of an Event of Default (other than a downgrade of the rating on Subordinated Obligations below “Baa3” or its equivalent by Moody’s or below “BBB-” (or its equivalent) by Fitch), the Letter of Credit Fee Rate shall be increased by an additional one and one half percent (1.50%) per annum. If any Letter of Credit Fee is not paid when due, interest on such Letter of Credit Fee shall accrue from the date payment is due until payment in full at the Default Rate.

Section 1.2. Drawing Fee. On the date of each Drawing, the City hereby agrees to pay a non-refundable drawing fee of \$250 to the Bank for each Drawing under the Letter of Credit; *provided, however,* that the City shall not be required to pay more than \$5,000 for Drawing fees in any calendar year.

Section 1.3. Amendment and Transfer Fee. The City agrees to pay, or cause to be paid, to the Bank, on the date an amendment to the Letter of Credit, the Agreement, this Fee Agreement or the Bank Note, the transfer of the Letter of Credit to a successor beneficiary, or the date any standard waiver or consent is sought, a non-refundable fee equal to \$1,500 plus, in each case, the reasonable fees and expenses of counsel to the Bank; *provided, however,* in the event the Letter of Credit is being extended by the Bank and no other amendment is, or amendments are, being made, no amendment fee shall be payable to the Bank but the City shall pay the reasonable fees and expenses of counsel to the Bank incurred in connection with such extension.

Section 1.4. Counsel Fees and Expenses. Promptly (and in any event no later than thirty (30) days) following submission of an invoice therefor, the City shall reimburse the Bank for the fees and expenses of counsel to the Bank, *provided* that such fees shall not exceed \$32,500.

Section 1.5. Out-of-Pocket Expenses. In accordance with Section 2.3 of the Agreement, and subject to the limitations set forth therein, the City shall pay to the Bank promptly upon receipt of invoice any and all reasonable fees and expenses of the Bank (including the out-of-pocket expenses of the Bank and the reasonable fees of counsel to the Bank).

ARTICLE II. MISCELLANEOUS.

Section 2.1. Amendments. No amendment to this Fee Agreement shall become effective without the prior written consent of the City and the Bank.

Section 2.2. Governing Law. This Fee Agreement shall be governed by and construed

in accordance with the laws of the State of California.

Section 2.3. Counterparts. This Fee Agreement may be executed in two or more counterparts, each of which shall constitute an original but both or all of which, when taken together, shall constitute but one instrument.

Section 2.4. Severability. Any provision of this Fee Agreement which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provision in any other jurisdiction.

[Remainder of page intentionally left blank; signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Fee Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

THE CITY OF SAN DIEGO

By: _____
Mary Lewis
Chief Financial Officer

ATTEST:

By: _____
Elizabeth S. Maland
City Clerk

APPROVED AS TO FORM:

JAN I. GOLDSMITH, City Attorney

By: _____
Brant C. Will
Deputy City Attorney

BANK OF THE WEST

By: _____
Name: _____
Title: _____

REIMBURSEMENT AGREEMENT

between

THE CITY OF SAN DIEGO

and

BANK OF AMERICA, N.A.

dated as of January 1, 2017

Relating to

\$175,000,000

Public Facilities Financing Authority of the City of San Diego
Subordinated Water Revenue Commercial Paper Notes, Series B
(Payable Solely from Subordinated Installment Payments Secured
by Net System Revenues of the Water Utility Fund)

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REIMBURSEMENT AGREEMENT

THIS REIMBURSEMENT AGREEMENT dated as of January 1, 2017 (as amended, modified and supplemented, the “Reimbursement Agreement”), is by and between THE CITY OF SAN DIEGO, a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California (the “City”), and BANK OF AMERICA, N.A. (the “Bank”).

WITNESSETH

WHEREAS, the Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers authority duly organizing and existing under the laws of the State of California (the “Authority”) intends to issue its Subordinated Water Revenue Commercial Paper Notes, Series B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Commercial Paper Notes”) which may be issued from time to time in an aggregate principal amount of up to \$175,000,000 for purposes as permitted by the Indenture hereinafter mentioned including [_____];

WHEREAS, the Commercial Paper Notes will be issued from time to time pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 et seq. of the Government Code of the State, as amended (the “Act”), and the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplemental Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), amending that certain Indenture, dated as of January 1, 2009, as supplemented and amended by that certain First Supplemental Indenture, dated as of June 1, 2009, that certain Second Supplemental Indenture, dated as of June 1, 2010, that certain Third Supplemental Indenture, dated as of April 1, 2012, and that certain Fourth Supplemental Indenture, dated as of June 1, 2016, each by and between the Authority and the Trustee;

WHEREAS, in order to support the payment of the Commercial Paper Notes as the same shall become due and payable pursuant to the provisions of the Indenture, the City has requested that the Bank issue in favor of the Issuing and Paying Agent (as hereinafter defined), for the account of the City and for the benefit of the holders from time to time of the Commercial Paper Notes, an irrevocable transferable letter of credit substantially in the form attached hereto as Exhibit A in the initial stated amount of \$[Stated Amount] (as completed, executed and issued, the “Letter of Credit”);

WHEREAS, in order to induce the Bank to issue the Letter of Credit, the City has agreed to reimburse the Bank for all amounts advanced by it under the Letter of Credit and to pay interest on such amounts as well as certain costs, fees and expenses, all as provided herein;

NOW, THEREFORE, in consideration of the foregoing recitals and the covenants contained herein, and in order to induce the Bank to issue the Letter of Credit, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. For purposes of this Reimbursement Agreement, capitalized terms used herein which are not defined herein shall have the meanings set forth in the Indenture. In addition, the following terms shall have the following meanings:

“Act” has the meaning set forth in the recitals hereto.

“Agreement” means the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as supplemented by a 2009 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, a 2009B Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2009, a 2010A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2010, a 2012A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2012, a 2016 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of June 1, 2016, each by and between the City and the Corporation and the 2017 Commercial Paper Supplement, and as further amended and supplemented from time to time in accordance with the terms thereof.

“Alternate Subordinated Credit Support Instrument” means a policy of insurance, a letter of credit, a standby bond purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Subordinated Credit Provider provides credit support or liquidity with respect to the payment of principal of and interest on the Commercial Paper Notes when the same become due and payable during the term thereof and is issued in substitution for the Letter of Credit in accordance with, and pursuant to, Section 6.5 hereof, as amended or supplemented from time to time.

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower from time to time concerning or relating to bribery or corruption.

“Assignment Agreement” means that certain Assignment Agreement, dated as of January 1, 2017, by and between the Corporation and the Authority, as amended and supplemented from time to time in accordance with the terms thereof.

“Authority Letter of Representations” means the Letter of Representations of the Authority, substantially in the form attached hereto as Exhibit C.

“Bank” is defined in the introductory paragraph hereof.

“Bank Agreement” means any credit agreement, liquidity agreement, standby bond purchase agreement, reimbursement agreement, direct purchase agreement, bond purchase agreement, or other agreement or instrument (or any amendment, supplement or other modification thereof) under which, directly or indirectly, any Person or Persons undertake(s) to make or provide funds to make payment of, or to purchase or provide credit enhancement for, bonds or notes or commercial paper of the City or the Authority secured by or payable from Net System Revenues.

“Bank Documents” means (a) the Letter of Credit, (b) this Reimbursement Agreement, (c) the Fee Letter, and (d) the Bank Note, each as amended from time to time in accordance with their respective terms.

“Bank Loan” has the meaning set forth in Section 2.11(a) hereof.

“Bank Note” has the meaning set forth in Section 2.16 hereof.

“Bank Rate” means (a) with respect to an Unreimbursed Amount, on any particular date that is less than 90 days following the date on which the Drawing relating to such Unreimbursed Amount was made, a rate of interest calculated with respect to such Unreimbursed Amount equal to the Base Rate in effect for such date, (b) with respect to an Unreimbursed Amount, on any particular date that is more than 90 days following the date on which the Drawing relating to such Unreimbursed Amount was made and less than 180 days following the date on which the Drawing relating to such Unreimbursed Amount was made, a rate of interest calculated with respect to such Unreimbursed Amount equal to the Base Rate in effect for such date plus 0.50% per annum or (c) with respect to a Bank Loan and on any particular date that is more than 180 days following the date on which the Drawing relating to such Bank Loan was made, a rate of interest calculated with respect to such Bank Loan equal to the Base Rate in effect for such date plus 1% per annum; *provided, however*, that immediately and upon the occurrence of an Event of Default (and without any notice given with respect thereto) and during the continuation of such Event of Default, “Bank Rate” shall mean the Default Rate.

“Base Rate” means, for any day, a fluctuating rate of interest per annum equal to the greatest of (a) the Prime Rate in effect at such time plus one percent (1.00%), (b) the Federal Funds Rate in effect at such time plus two percent (2.00%), and (c) seven percent (7.00%).

“Bond Counsel” means (i) Hawkins Delafield & Wood LLP or (ii) another attorney or firm of attorneys nationally recognized in the area of municipal bonds selected by the City.

“Business Day” means any day of the year on which banks in New York, New York or the city where the presentation office of the Bank at which Drawings are presented is located are not required or authorized to remain closed and on which the Issuing and Paying Agent, the Bank, the New York Stock Exchange, Inc. and the Federal Reserve Bank are open.

“CAFR” has the meaning set forth in Section 5.2(a) hereof.

“Change in Law” has the meaning set forth in Section 2.12(a) hereof.

“Charter” means the charter of the City as it now exists or may hereafter be amended, and any new or successor charter.

“City” is defined in the introductory paragraph hereof.

“City Documents” means (a) the Agreement, (b) this Reimbursement Agreement, (c) the Fee Letter, and (d) the Bank Note, each as amended from time to time in accordance with their respective terms.

“Closing Date” means the date on which the Letter of Credit is issued.

“Code” means the Internal Revenue Code of 1986, as amended, and any successor statute thereto.

“Corporation” means the San Diego Facilities and Equipment Leasing Corporation, a nonprofit public benefit corporation organized and existing under and by virtue of the laws of the State.

“Commercial Paper Documents” means (a) the Relevant Indenture Provisions, (b) the Agreement, (c) the Assignment Agreement, (d) the Issuing and Paying Agency Agreement, (e) the Dealer Agreements, (f) the Commercial Paper Notes, (g) this Reimbursement Agreement, (h) the Fee Letter and (i) the Bank Note, each as amended from time to time in accordance with their respective terms.

“Corporation Letter of Representations” means the Letter of Representations of the Corporation, substantially in the form attached hereto as Exhibit D.

“Dealer” means a Person performing the functions of a commercial paper note dealer pursuant to a Dealer Agreement.

“Dealer Agreement” means an agreement between the Authority and a commercial paper note dealer relating to the sale of the Commercial Paper Notes, as amended and supplemented from time to time in accordance with the terms thereof.

“Default” means an event that with the giving of notice or passage of time, or both, shall constitute an Event of Default

“Default Rate” means, for any day, a rate of interest per annum equal to the sum of the Base Rate in effect on such day plus three percent (3.00%).

“Designated Jurisdiction” means any country or territory to the extent that such country or territory itself is the subject of any Sanction.

“Dodd-Frank Act” shall mean the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as enacted by the United States Congress, and signed into law on July 21, 2010, and all statutes, rules, guidelines or directives promulgated thereunder.

“Drawing” shall mean a drawing under the Letter of Credit in accordance with its terms to pay the principal of and interest on the Commercial Paper Notes.

“EMMA” means the Electronic Municipal Market Access system and any successor thereto.

“Environmental Laws” means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum

products, chemicals or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes or the clean up or other remediation thereof.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

“Event of Default” shall have the meaning set forth in Section 7.1 hereof.

“Excluded Taxes” means any taxes measured by or based upon the overall net income of the Bank or any Participant and any franchise taxes or branch profits taxes imposed on the Bank or any Participant as a result of a present or future connection between the jurisdiction of the Governmental Authority imposing such tax and the Bank or such Participant.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Bank on such day on such transactions as determined by the Bank.

“Fee Letter” means that certain Fee Agreement, dated January [], 2017, by and between the City and the Bank, as amended and supplemented from time to time in accordance with the terms thereof.

“Fifth Supplemental Indenture” means that certain Fifth Supplemental Indenture, dated as of January 1, 2017, by and between the Authority and the Trustee.

“Final Drawing” means a Drawing honored by the Bank under the Letter of Credit in connection with a Final Drawing Notice.

“Final Drawing Notice” shall mean a Final Drawing Notice in the form of the certificate attached to the Letter of Credit as Annex [H].

“Fiscal Year” means the twelve month period commencing on July 1 of a calendar year and ending on June 30 of the following calendar year.

“Fitch” means Fitch Ratings, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“GAAP” means generally accepted accounting principles in the United States as in effect from time to time, applied on a basis consistent with those used in preparation of the audit report referred to in Section 5.2 hereof.

“Governmental Authority” means any federal, state or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, administrative, public or statutory instrumentality, authority, body, agency, commission, bureau or other entity exercising executive, legislative, judicial, taxing, regulatory, fiscal, monetary or administrative powers or functions of or pertaining to government (including any zoning authority, the Federal Deposit Insurance Corporation or the Federal Reserve Board, any central bank or any comparable authority), or any arbitrator with authority to bind a party at law.

“Governmental Requirements” shall mean any law, ordinance, order, rule or regulation enacted, issued or promulgated by a Governmental Authority.

“Holders” shall mean the Holders of Commercial Paper Notes.

“Indemnitees” has the meaning given to that term in Section 8.3(a) hereof.

“Indenture” means that certain Indenture, dated as of January 1, 2009, as supplemented and amended by that certain First Supplemental Indenture, dated as of June 1, 2009, that certain Second Supplemental Indenture, dated as of June 1, 2010, that certain Third Supplemental Indenture, dated as of April 1, 2012, that certain Fourth Supplemental Indenture, dated as of June 1, 2016, each by and between the Authority and the Trustee, and the Fifth Supplemental Indenture, and as further amended and supplemented from time to time in accordance with the terms thereof.

“Initial Stated Amount” has the meaning set forth in Section 2.1(a) hereof.

“Installment Payments” means the Installment Payments scheduled to be paid by the City under and pursuant to the Agreement and any Supplement.

“Interest Component” has the meaning set forth in the Letter of Credit.

“Issuing and Paying Agent” means the Person performing the functions of issuing and paying agent pursuant to the Issuing and Paying Agency Agreement and any successor thereto as shall be appointed pursuant to the Issuing and Paying Agency Agreement.

“Issuing and Paying Agency Agreement” means an agreement between the Authority and an issuing and paying agent relating to the issuance and payment of the Commercial Paper Notes, as amended and supplemented from time to time in accordance with the terms thereof.

“Legal Action” has the meaning given to that term in Section 4.3 of this Reimbursement Agreement.

“Legal Requirements” means, as to any Person, (a) all decisions, statutes, ordinances, rulings, directions, rules, regulations, orders, writs, decrees, injunctions, permits, certificates or

other requirements of any court or other Governmental Authority in any way applicable to or affecting such Person, such Person's assets, such Person's business and operations or any transaction to which such Person is a party, as the case may be, (b) all governance documents applicable to such Person, including, without limitation, charters, codes, rules, regulations, bylaws, articles of incorporation, and partnership, limited partnership, joint venture, trust, or other forms of business association agreement, and (c) all other written contractual obligations of any nature applicable to or affecting such Person, such Person's assets or such Person's business and operations.

"Letter of Credit" has the meaning set forth in the recitals hereto.

"Lien" means any mortgage, deed of trust, lien, security interest, assignment, pledge, charge, hypothecation or encumbrance of any kind in respect of any Property, including the interests of a vendor or lessor under any conditional sale or other title retention arrangement.

"Liquidity Period End Date" has the meaning set forth in Section 2.11(a) hereof.

"Losses" shall mean liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses and disbursements (including, without limitation, reasonable attorneys' fees and expenses).

"Material Adverse Effect" means (a) a material adverse effect on the properties, assets, condition (financial or otherwise), results of operations or business prospects of the Water System or the conduct of the Water Service taken as a whole, (b) a material adverse effect upon the City's ability to timely perform its obligations under the Commercial Paper Documents to which it is a party and/or (c) a material adverse effect upon the Bank's rights and remedies under the Bank Documents.

"Maturity Date" shall mean, with respect to any Bank Loan, the earliest to occur of: (i) the third (3rd) anniversary of the date of the Drawing relating to such Bank Loan, (ii) the date on which an Alternate Subordinated Credit Support Instrument becomes effective in substitution of the Letter of Credit, (iii) the date on which the Stated Amount is permanently reduced to zero or the Letter of Credit is otherwise terminated (other than as a result of the Letter of Credit expiring on the Stated Expiration Date), including as a result of an Event of Default or (iv) the Business Day on which commercial paper notes or bonds are sold to fund the repayment in full of any Bank Loan.

"Maximum Rate" means the lesser of (a) 11% per annum, and (b) the maximum non-usurious lawful rate of interest permitted by applicable law.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Net System Revenues" has the meaning given to that term in the Agreement.

“Notice of No Issuance” shall mean a Notice of No Issuance in the form of the certificate attached [to the Letter of Credit as Annex [F]] / [to this Agreement as Exhibit []]¹.

“Obligations” has the meaning given to that term in the Agreement.

“Offering Memorandum” shall mean the offering memorandum relating to the issuance and sale of the Commercial Paper Notes, including any supplement or amendment to such offering memorandum.

“Other Taxes” has the meaning set forth in Section 5.12(b) hereof.

“Outstanding” has the meaning set forth in the Indenture.

“Parity Installment Obligation” has the meaning given to that term in the Agreement.

“Parity Obligations” has the meaning given to that term in the Agreement.

“Participant” means any financial institution or other Person now or hereafter directly or indirectly participating in the rights and obligations of the Bank pursuant to Section 8.17 hereof.

“Payment Obligations” means any and all obligations of the City to pay or reimburse the Bank contained in or evidenced by any City Document, including, without limitation, obligations to reimburse the Bank for all Drawings under the Letter of Credit, all obligations to repay the Bank for any Unreimbursed Amount and any Bank Loan, including all interest accrued thereon, all amounts owing under the Bank Note, the fees relating to the Letter of Credit and all other obligations of the City to the Bank arising under, or in relation to, or evidenced by, this Reimbursement Agreement, the Fee Letter and the Bank Note.

“Permitted Parity Obligations” means Obligations of the City payable from or secured by a lien on Net System Revenues that is on parity in right of payment to Parity Obligations permitted to be issued or created pursuant to Section 5.03(c) of the Agreement.

“Permitted Subordinated Obligations” means Obligations of the City payable from or secured by a lien on Net System Revenues that is subordinated in right of payment to Parity Obligations permitted to be issued or created pursuant to Section 5.03(f) of the Agreement.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

“Plan” means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code.

“Prime Rate” means the rate of interest announced by the Bank from time to time as its prime commercial rate or equivalent, as in effect on such day for United States dollar loans, with any change in the Prime Rate resulting from a change in said prime commercial rate to be

¹ To be decided by Bank’s letter of credit department.

automatically and immediately effective as of the date of the relevant change in said prime commercial rate, it being understood that such rate may not be the Bank's best or lowest rate.

"Principal Component" has the meaning set forth in the Letter of Credit.

"Project" shall mean the projects financed with the proceeds of the Commercial Paper Notes.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, whether now owned or hereafter acquired.

"Quarterly Payment Date" shall mean each [_____] 1, [_____] 1, [_____] 1 and [_____] 1.

"Rating Agencies" means Fitch and Moody's.

"Reimbursement Account" means the City of San Diego Commercial Paper Reimbursement Account created and held by the Issuing and Paying Agent pursuant to the Issuing and Paying Agency Agreement.

"Reimbursement Agreement" has the meaning set forth in the preamble and includes all of the Exhibits attached hereto, all of which are incorporated herein by this reference and made a part hereof.

"Relevant Indenture Provisions" means the provisions of Articles V, VI, IX, X and XVII of the Indenture and any other provisions of the Indenture applicable to the Commercial Paper Notes.

"Rescission of Notice of No Issuance" means a Rescission of Notice of No Issuance in substantially the form of the certificate attached [to the Letter of Credit as Annex [G]] / [to this Agreement as Exhibit []]².

"Sanctions" means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State.

"State" means the State of California.

"Stated Amount" shall mean the amount set forth in the Letter of Credit as the "Stated Amount," as such amount is reduced and reinstated from time to time in accordance with the terms of the Letter of Credit.

"Stated Expiration Date" has the meaning set forth in the Letter of Credit.

"Subordinated Credit Provider" has the meaning given to that term in the Agreement.

² To be decided by Bank's letter of credit department.

“Subordinated Credit Provider Reimbursement Obligations” has the meaning given to that term in the Agreement.

“Subordinated Credit Support Instrument” has the meaning given to that term in the Agreement.

“Subordinated Obligation Rating” shall mean the long-term unenhanced, unsecured debt ratings assigned by the Rating Agencies to any Subordinated Obligations.

“Subordinated Obligations” has the meaning given to that term in the Agreement.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“System Revenues” has the meaning set forth in the Agreement.

“Taxes” has the meaning set forth in Section 5.12(a) hereof.

“Termination Date” means the earlier of (a) the Stated Expiration Date of the Letter of Credit or (b) the date on which the Letter of Credit shall terminate pursuant to its terms or otherwise be terminated prior to the Stated Expiration Date.

“Trustee” means U.S. Bank National Association, as trustee pursuant to the Indenture, its successors and assigns, and any successor trustee appointed thereunder.

“2017 Commercial Paper Supplement” means that certain 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017, by and between the City and the Corporation.

“Unreimbursed Amount” shall mean with respect to the Letter of Credit, the amount of each Drawing on the Letter of Credit for which the Bank has not been reimbursed by or on behalf of the City, but not including the outstanding balance of all Bank Loans owing to the Bank.

“Water Service” has the meaning given to that term in the Agreement.

“Water System” has the meaning given to that term in the Agreement.

“Water Utility Fund” has the meaning given to that term in the Agreement.

Section 1.2. Accounting Terms. As used herein, all accounting terms not otherwise defined shall have the meanings assigned to them under GAAP.

Section 1.3. Terminology. References to “Articles,” “Sections,” “Subsections,” “Recitals,” and “Exhibits” shall be to articles, sections, subsections, recitals, and exhibits of this Reimbursement Agreement unless otherwise specifically provided. Any of the terms defined in this Reimbursement Agreement may be used in singular or plural form. As used herein, the singular includes the plural, and the masculine gender includes the feminine and neutral genders, and vice versa, unless the context clearly requires otherwise.

ARTICLE II

LETTER OF CREDIT; FEES

Section 2.1. Amount and Terms of Letter of Credit.

(a) The Bank agrees, on the terms and subject to the conditions hereinafter set forth and relying upon the representations and warranties set forth herein or incorporated herein by reference, to issue the Letter of Credit in an initial stated amount equal to \$[Stated Amount] (the “Initial Stated Amount”), representing the maximum principal amount of the Commercial Paper Notes in the amount of \$175,000,000 and interest thereon computed on the basis of an assumed interest rate of 10% per annum for a period of 120 days and a year of 365 days. The Letter of Credit shall be issued to the Issuing and Paying Agent on the Closing Date for the account of the City.

(b) The Stated Expiration Date for the Letter of Credit is set forth in the Letter of Credit; provided that such date shall be subject to extension upon the request of the City and with the written consent of the Bank in its sole discretion. Any request made by the City shall be made by written notice to the Bank no sooner than one hundred eighty (180) days prior to the then existing Stated Expiration Date and the Bank shall consent to or deny the request for extension within forty-five (45) days following its receipt of the City’s request for extension. If for any reason the Bank fails to consent to or deny the City’s request for an extension or fails to respond to the City’s request for an extension, the request shall be deemed to be denied by the Bank.

Section 2.2. Fees. The City shall pay to the Bank fees and expenses in the amounts and on the dates and at the times set forth in the Fee Letter. Any reference herein or in any other document to fees and/or other amounts or obligations payable hereunder shall include, without limitation, all fees and other amounts or obligations payable pursuant to the Fee Letter. The terms of the Fee Letter are hereby incorporated herein by reference as if fully set forth herein. All fees paid under this Reimbursement Agreement and the Fee Letter will be fully earned when due and nonrefundable when paid.

Section 2.3. Expenses. The City shall pay to the Bank within thirty (30) days of demand by the Bank, all reasonable costs, charges, fees and expenses of the Bank (including, without limitation, taxes, if any, and the reasonable fees and expenses of counsel for the Bank as provided herein and in the Fee Letter) in connection with this Reimbursement Agreement, the Letter of Credit and the transactions contemplated hereby and thereby, including, without limitation, any such costs, charges, fees and expenses incurred in connection with: (a) the preparation and negotiation of this Reimbursement Agreement, any other Commercial Paper Documents or the Letter of Credit; (b) the closing of the transactions contemplated by this Reimbursement Agreement and the issuance of the Letter of Credit; (c) any amendment, waiver, consent or modification of, or with respect to, this Reimbursement Agreement, any other Commercial Paper Document or the Letter of Credit; (d) the perfection, protection, exercise or enforcement of any of the Bank's rights under this Reimbursement Agreement, any other Commercial Paper Document or the Letter of Credit; (e) any certificates required by the Bank from insurance specialists and other professionals; (f) any action or proceeding relating to a court order, injunction, or other process or decree restraining or seeking to restrain the Bank from paying any amount under the Letter of Credit; or (g) enforcement by the Bank of any obligations of, or in collecting any payments due from, the City hereunder, under any other Commercial Paper Document, under the Letter of Credit or in connection with any refinancing or restructuring of the credit arrangements provided under this Reimbursement Agreement in the nature of a "work out" or of any insolvency or bankruptcy proceedings. The obligation of the City to pay all reasonable costs and expenses of the Bank shall continue notwithstanding any failure to satisfy the conditions of Article III hereof and shall survive the termination of the Letter of Credit and this Reimbursement Agreement. Except with respect to clause (g) above, the Bank will furnish to the City upon request an itemized statement of all costs, charges, fees and expenses demanded by the Bank under this Section.

Section 2.4. Reduction and Reinstatement of the Stated Amount of the Letter of Credit. The Stated Amount of the Letter of Credit shall be reduced and reinstated as set forth in the Letter of Credit. The City hereby irrevocably approves of reductions and reinstatements set forth in the Letter of Credit. Notwithstanding the foregoing and anything set forth herein to the contrary, the City agrees not to permanently reduce the Initial Stated Amount of the Letter of Credit except in accordance with the terms of the Commercial Paper Documents.

Section 2.5. Drawings under the Letter of Credit. The Issuing and Paying Agent is authorized to make Drawings under the Letter of Credit in accordance with its terms. If demand for payment under the Letter of Credit is properly presented as provided therein and in strict conformity with the requirements thereof, payment shall be made by the Bank, and the City hereby directs the Bank to make such payments, to the Issuing and Paying Agent, in immediately available funds, at such times as provided in and in accordance with the provisions of the Letter of Credit. All payments made by the Bank under the Letter of Credit shall be made with the Bank's own funds.

Section 2.6. Manner and Time of Payment³. Except as otherwise expressly provided herein, all payments to the Bank by the City under this Reimbursement Agreement, the Fee Letter and the Bank Note shall be made to the Bank in immediately available funds by wire

³ Times to be confirmed by Bank's operations area.

transfer to the account designated for that purpose pursuant to Section 8.1 hereof not later than [4:00 p.m.] New York City time ([1:00 p.m. San Diego time]) on the date such payment is due. Funds received after such time shall be deemed to have been paid and received on the next succeeding Business Day and amounts not received on or before 4:00 p.m. New York City time (1:00 p.m. San Diego time) on the date due shall bear interest at the Default Rate. All amounts payable to the Bank by the City hereunder, under the Fee Letter or under the Bank Note shall be paid without demand, presentment or notice of any kind on the date due, provided, that payments to be made under (a) Sections 2.3 and 8.3 hereof shall be payable only upon written demand therefor by the Bank and shall be due thirty (30) days after receipt of notice by the City of such demand and (b) Sections 2.12 and 5.12 hereof shall be due and payable as provided respectively therein.

Section 2.7. Payment Due on Non-Business Day to Be Made on Next Business Day. If any sum becomes payable pursuant to this Reimbursement Agreement or the Fee Letter on a day which is not a Business Day, the date for payment thereof shall be extended, without penalty, to the next succeeding Business Day, and such extended time shall be included in the computation of interest and fees.

Section 2.8. Late Payments. If the principal amount of any Payment Obligation is not paid when due, or upon the occurrence and during the continuance of any Event of Default, all Payment Obligations shall bear interest until paid in full at a rate per annum equal to the Default Rate from time to time in effect, payable on demand.

Section 2.9. Replacement of Letter of Credit. Notwithstanding any provisions of this Reimbursement Agreement to the contrary, the City agrees not to replace the Letter of Credit prior to the Stated Expiration Date, except upon (i) the payment by the City to the Bank of any fee, including any termination fee, required by the terms of this Reimbursement Agreement or the Fee Letter, (ii) the payment to the Bank of all other Payment Obligations payable hereunder, and (iii) the City providing the Bank and the Issuing and Paying Agent with fifteen (15) days prior written notice of its intent to replace the Letter of Credit. Any such replacement of the Letter of Credit shall be in compliance with the terms and conditions of the Indenture and the Issuing and Paying Agency Agreement. The City agrees that any replacement of the Letter of Credit as a result of the provision of any Alternate Subordinated Credit Support Instrument will require, as a condition thereto, that the City or the issuer of any Alternate Subordinated Credit Support Instrument will provide funds on the date of such replacement, which funds will be sufficient to pay in full at the time of replacement of the Letter of Credit all Payment Obligations due and owing to the Bank hereunder.

Section 2.10. Interest on Unreimbursed Amounts and Bank Loans.

(a) Interest⁴. The City hereby agrees to pay interest (i) on Unreimbursed Amounts that are repaid in full prior to [4:00 p.m.] New York City time ([1:00 p.m.] San Diego time) on the date which is the one hundred eightieth (180th) day immediately succeeding the date on which the Drawing relating to such Unreimbursed Amount was made at the Bank Rate from time to time in effect, (ii) on Unreimbursed Amounts that do not become Bank Loans and that are not

⁴ Note to draft: Times to be confirmed by Bank's operations area.

paid when due at the Default Rate from time to time in effect, and (iii) on Bank Loans at the Bank Rate from time to time in effect from and after the date of payment of the related Drawing until paid in full. If any Unreimbursed Amount is repaid at or prior to 4:00 p.m. New York City time (1:00 p.m. San Diego time) on the same day on which the related Drawing is paid, no interest shall be payable on such Unreimbursed Amount.

(b) Payment of Interest. (i) Interest on Unreimbursed Amounts (A) at the rate specified in Section 2.10(a)(i) hereof shall be payable on each Quarterly Payment Date and the date of the payment in full of such Unreimbursed Amount and (B) at the rate specified in Section 2.10(a)(ii) hereof shall be payable on demand, (ii) interest on Bank Loans at the rate specified in Section 2.10(a)(iii) shall be payable quarterly in arrears on each Quarterly Payment Date until the Maturity Date and on the Termination Date and (iii) with respect to accrued interest on an amount to be prepaid by the City pursuant to Section 2.11(c) below, on the date of prepayment of such amount.

(c) Computation of Interest. All interest payable hereunder shall be computed on the basis of a 365-day year, and all fees and other amounts due and owing the Bank hereunder and under the Fee Letter shall be computed on the basis of a 360-day year, and, in each case, on the actual number of days elapsed in the period during which such interest or fee or other amounts due and owing hereunder and under the Fee Letter accrues as specifically provided herein or therein, on any amount outstanding hereunder or thereunder, the first date from which interest is stated to accrue hereunder shall be included and the date of payment of such amount to the Bank shall be excluded. Due but unpaid interest shall be compounded monthly and, to the extent permitted by law, shall bear interest at the Default Rate per annum from and after compounding until paid in full.

Section 2.11. Payment of Unreimbursed Amounts.

(a) Maturity Date of Unreimbursed Amount. The Unreimbursed Amount with respect to each Drawing shall be due and payable by the City by 4:00 p.m. New York City time (1:00 p.m. San Diego time) on the one hundred eightieth (180th) day immediately succeeding the date such Drawing was made (the "Liquidity Period End Date"); provided, that in the event that the conditions set forth in Section 3.2 hereof are satisfied on the Liquidity Period End Date, the Unreimbursed Amount of such Drawing will be converted automatically to a term loan (each a "Bank Loan") from the Bank to the City. Each Bank Loan shall be due and payable as provided in Sections 2.10 and 2.11 hereof, but in no event later than the applicable Maturity Date.

(b) Payment of Bank Loans. With respect to each Bank Loan, the City hereby agrees to pay the amount of such Bank Loan to the Bank in equal quarterly installments, such payments (together with the payment of interest accrued pursuant to Section 2.10) to be made on each Quarterly Payment Date commencing with the first Quarterly Payment Date following the date of the Drawing to which such Bank Loan relates until paid in full with the final principal installment in an amount equal to the entire then outstanding principal amount of such Bank Loan being due and payable on the related Maturity Date.

(c) Prepayment. The City may prepay each Unreimbursed Amount or Bank Loan, in whole or in part [in an amount not less than \$[●] and increments of \$[●] in excess thereof], at

any time; provided, that such prepayment is accompanied by all interest accrued thereon. In the event that the Issuing and Paying Agent issues any Commercial Paper Notes while any Unreimbursed Amounts or Bank Loans remains unpaid, the City shall apply the proceeds of any such Commercial Paper Notes to the prepayment of such outstanding Unreimbursed Amounts and/or Bank Loans and such prepayment shall be applied first against Bank Loans in the order in which each such Bank Loan was made and second against Unreimbursed Amount in the order in which each such Unreimbursed Amount arose.

(d) Bank Rate Interest. The City hereby agrees to pay interest at the Bank Rate from time to time in effect on any and all amounts required to be paid under this Section 2.11 until paid in full.

Section 2.12. Increased Costs.

(a) If the Bank or any Participant shall have reasonably determined that the adoption or implementation of, or any change in, any law, rule, treaty or regulation, or any policy, guideline or directive of, or any change in the interpretation or administration thereof by any court, central bank or other administrative or Governmental Authority (in each case, whether or not having the force of law) in each case occurring after the Closing Date, or compliance by the Bank or any Participant with any request, guideline or directive of any such court, central bank or other administrative or Governmental Authority (whether or not having the force of law) (each a "Change in Law"), shall (i) subject the Bank or any Participant to any tax, charge, fee, deduction or withholding of any kind with respect to its loans, loan principal, commitments, letters of credit or other obligations, or its deposits, reserves other liabilities or capital attributable thereto (other than any Excluded Taxes), (ii) change the basis of taxation of payments to the Bank or any Participant of any amounts payable hereunder, under the Fee Letter or under the Bank Note (other than a change in the rate of any Excluded Tax), (iii) impose, modify or deem applicable any reserve, capital or liquidity ratio, special deposit, compulsory loan, insurance charge or similar requirement against issuing or honoring Drawings under the Letter of Credit, extending credit under this Reimbursement Agreement or assets held by or deposits with or for the account of, the Bank or any Participant, or (iv) impose on the Bank or any Participant any other condition regarding this Reimbursement Agreement, the Bank Note, or the Letter of Credit, and the result of any event referred to in clause (i), (ii), (iii) or (iv) above shall be to increase the cost to the Bank or any such Participant of honoring Drawings under the Letter of Credit, or making or maintaining any Bank Loan (or the obligation to make Bank Loans) or to reduce the amount of any sum received or receivable by the Bank or any such Participant hereunder, under the Fee Letter or under the Bank Note, then the City shall pay to the Bank or such Participant at such time and in such amount as is set forth in paragraph (c) of this Section, such additional amount or amounts as will compensate the Bank or such Participant for such increased costs or reductions in amount.

(b) If the Bank or any Participant shall have determined that any Change in Law shall impose, modify or deem applicable any capital adequacy, liquidity or similar requirement (including, without limitation, a request or requirement that affects the manner in which the Bank, any corporation controlling the Bank, any Participant or any corporation controlling such Participant allocates capital resources or liquidity to its commitments, including its obligations under lines of credit and letters of credit) that either (i) affects or would affect the amount of

capital or liquidity to be maintained by the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant as it relates to making or maintaining its obligations under this Reimbursement Agreement and the Letter of Credit or (ii) reduces or would reduce the rate of return on the Bank's capital or liquidity, or the capital or liquidity of any corporation controlling the Bank, or of any Participant or any corporation controlling any Participant, to a level below that which the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant could have achieved but for such Change in Law (taking into consideration the policies of the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant with respect to capital adequacy or liquidity as it relates to making or maintaining its obligations under this Reimbursement Agreement and the Letter of Credit), then the City shall pay to the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant at such time and in such amount as is set forth in paragraph (c) of this Section, such additional amount or amounts as will compensate the Bank, any corporation controlling the Bank, such Participant or any corporation controlling such Participant for such cost of maintaining such increased capital or liquidity or such reduction of the rate of return on the Bank's capital, or the capital of any corporation controlling the Bank, or of any Participant or any corporation controlling any Participant. The protection of this Section 2.12(b) shall be available to the Bank and any Participant regardless of any possible contention of invalidity or inapplicability of the Change in Law.

(c) Notwithstanding the foregoing, for purposes of this Reimbursement Agreement (i) all requests, rules, guidelines or directives in connection with the Dodd-Frank Act shall be deemed to be a Change in Law, regardless of the date enacted, adopted or issued, and (ii) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) or any Governmental Authority, in each case relating to Basel III or any successor Basel Accord, shall be deemed a Change in Law regardless of the date enacted, adopted or issued.

(d) The Bank or Participant will use commercially reasonable efforts to notify the City within 30 days of its obtaining actual knowledge of any Change in Law occurring after the Closing Date that will entitle the Bank or such Participant or the respective controlling corporation of either, to compensation pursuant to this Section; provided that the failure of the Bank or Participant to notify the City within such 30⁸ day period shall not relieve the City from any liability for payment of such compensation. Any request for payment pursuant to this Section 2.12 shall be accompanied by a certificate of the Bank or Participant claiming compensation under this Section and setting forth in reasonable detail the basis therefor; such certificate shall be conclusive in the absence of manifest error. In determining such amount, the Bank or Participant may use any reasonable average and attribution methods. The City shall not be required to compensate the Bank or any Participant pursuant to this Section 2.12 in respect of a period occurring more than six (6) months prior to the date the above-described written request is given to the City with respect thereto (the "Cut-Off Date"), except where (i) the Bank or Participant Bank, as applicable, had no actual knowledge of the action resulting in such request for compensation as of the Cut-Off Date or (ii) such increased costs, increased capital or reduction in return apply to the Bank or Participant Bank retroactively to a date prior to the Cut-Off Date.

(e) Notwithstanding anything to the contrary in this Section, in the event the Bank grants any participation to any Participant under this Reimbursement Agreement, the City shall not have any obligation to pay amounts pursuant to this Section in an amount greater than that which it would have been required to pay if the Bank had not granted such participation.

(f) The obligation of the City under this Section shall survive the termination of the Letter of Credit and this Reimbursement Agreement and the repayment of all amounts owing to the Bank hereunder and under the other Commercial Paper Documents.

Section 2.13. Security of the Payment Obligations. The Payment Obligations of the City hereunder are special obligations secured by a pledge of the Net System Revenues on a parity with the Subordinated Obligations.

Section 2.14. Absolute Obligations. Each Payment Obligation of the City shall be performed strictly in accordance with this Reimbursement Agreement (subject to any modifications, waivers or consents by the Bank in accordance with the terms hereof) under any and all circumstances, and shall not be affected by (a) any lack of validity or enforceability of this Reimbursement Agreement or any other Commercial Paper Document; (b) any amendment of, or any waiver or consent with respect to, this Reimbursement Agreement or any other Commercial Paper Document, not inconsistent with the foregoing; (c) the existence of any claim, set off, defense or other right which the City may have at any time against the Bank, the Dealer, the Issuing and Paying Agent, the Trustee or any other Person, whether in connection with this Reimbursement Agreement, the transactions described herein or any unrelated transaction; (d) any breach of contract or other dispute between the City or any other Person; (e) any statement, certificate, draft or other document presented under the Letter of Credit proving to be forged, fraudulent, untrue, inaccurate, invalid or insufficient in any respect; (f) any payment by the Bank under the Letter of Credit against presentation of a certificate which does not comply with the terms of the Letter of Credit (except as where such payment (i) constitutes gross negligence or willful misconduct of the Bank and (ii) the Bank has made payment of any Drawing under the Letter of Credit to a party other than the Issuing and Paying Agent); (g) any non-application or misapplication by the Trustee, the Issuing and Paying Agent, the Dealer or any other Person of the proceeds of any Drawing under the Letter of Credit or of the proceeds of the Commercial Paper Notes; (h) any delay, extension of time, renewal, compromise or other indulgence or modification (not inconsistent with the foregoing) agreed to by the Bank, with or without notice to or approval by the City, in respect of any of the obligations of the City to the Bank under this Reimbursement Agreement or any other Commercial Paper Document; (i) any exchange, release, surrender, impairment or non-perfection of any Lien on any collateral pledged or otherwise provided to secure any of the obligations contemplated herein or in any other Commercial Paper Document; (j) the occurrence of an Event of Default; or (j) any invalidity of the Commercial Paper Notes.

Section 2.15. Commercial Paper Notes Operations.

(a) Issuance Generally. The City will permit Commercial Paper Notes to be issued, and authorizes the Issuing and Paying Agent to issue Commercial Paper Notes, only in accordance with the terms of the Indenture and this Reimbursement Agreement.

(b) Notice of No Issuance; Final Drawing Notice. Commercial Paper Notes may be issued from time to time prior to the Stated Expiration Date in accordance with the Issuing and Paying Agency Agreement and the Indenture so long as (i) the Issuing and Paying Agent is not in receipt of a Notice of No Issuance delivered by the Bank pursuant to Section 7.2(c) hereof, which notice has not been rescinded by a Rescission of Notice of No Issuance, and (ii) the Issuing and Paying Agent is not in receipt of the Final Drawing Notice delivered by the Bank pursuant to Section 7.2(d) hereof. Pursuant to Sections 7.2(c) and (d) hereof, the Bank may deliver a Notice of No Issuance or a Final Drawing Notice at any time when an Event of Default shall have occurred and be continuing. A Notice of No Issuance or the Final Drawing Notice shall be effective when received by the Issuing and Paying Agent; provided, however, that a Notice of No Issuance or the Final Drawing Notice received by the Issuing and Paying Agent after 11:30 a.m. New York City time (8:30 a.m. San Diego time), on any day on which Commercial Paper Notes are being issued shall be effective on the next succeeding day. A Notice of No Issuance or the Final Drawing Notice may be given by facsimile or electronic mail transmission, confirmed in writing within twenty-four (24) hours, but the failure to so confirm such Notice of No Issuance or the Final Drawing Notice in writing shall not render such Notice of No Issuance or the Final Drawing Notice ineffective. The Bank will furnish a copy of any Notice of No Issuance or the Final Drawing Notice to the City and the Dealers promptly following delivery thereof to the Issuing and Paying Agent, but the failure to furnish any such copy shall not render ineffective such Notice of No Issuance or the Final Drawing Notice.

Section 2.16. The Bank Note. All Unreimbursed Amounts and Bank Loans shall be made against and evidenced by a promissory note (the "Bank Note") issued by the City pursuant to the terms hereof to the Bank. The Bank Note shall be payable to the order of the Bank in an amount equal to the aggregate amount of all Unreimbursed Amounts and Bank Loans outstanding from time to time. The Bank Note shall be executed and delivered to the Bank on the Closing Date substantially in the form of Exhibit B attached hereto, with appropriate insertions. All Unreimbursed Amounts and Bank Loans and all payments and prepayments on account of the principal of and interest thereon shall be recorded by the Bank on its books and records, which books and records shall, absent manifest error, be conclusive as to amounts payable by the City hereunder and under the Bank Note. The Bank may, but shall not be required to, complete the schedule attached to the Bank Note to reflect the status of Unreimbursed Amounts and Bank Loans thereunder; provided, that the failure to make, or any error in making, any such endorsement on such schedule shall not limit, extinguish or in any way modify the obligation of the City to repay the Unreimbursed Amounts and Bank Loans. The City shall pay principal and interest on the Bank Note on the dates and at the rates provided for in Sections 2.10 and 2.11 hereof with respect to Unreimbursed Amounts and Bank Loans.

Section 2.17. Failure to Extend. If the Stated Expiration Date of the Letter of Credit shall not be extended, the City agrees to use its best efforts to arrange for (i) the substitution of the Letter of Credit by an Alternate Subordinated Credit Support Instrument or (ii) the maturity of all of the Commercial Paper Notes supported by the Letter of Credit on or prior to the then existing Stated Expiration Date.

ARTICLE III

CONDITIONS PRECEDENT

Section 3.1. Conditions to Issuance of the Letter of Credit. The obligation of the Bank to issue the Letter of Credit is conditioned upon the satisfaction by the Bank on or before the Closing Date of the following conditions:

(a) On or before the Closing Date, the Bank shall have received and approved the following documents or materials, each of which shall be in form and substance satisfactory to the Bank and, where appropriate, duly executed (and acknowledged where necessary) and delivered by the appropriate parties thereto:

(i) executed original copies of the Bank Documents (other than the Letter of Credit), the Authority Letter of Representations and the Corporation Letter of Representations, and certified copies of each of the other Commercial Paper Documents which certification shall state that such documents are true, complete and in full force and effect;

(ii) a certificate of the Chief Financial Officer of the City, dated as of the Closing Date, stating that (A) the representations and warranties of the City contained in this Reimbursement Agreement and in each written document delivered by the City to the Bank in connection with this Reimbursement Agreement (I) which are not qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) are true and correct in all material respects and (II) which are qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) are true and correct in all respects, in each case on and as of the Closing Date to the same extent as though made on and as of the Closing Date; (B) no Default or Event of Default has occurred and is continuing and no Default or Event of Default will result from the issuance of the Letter of Credit; and (C) no event or circumstance or change has occurred since June 30, [insert year of most recent CAFR], which could reasonably be expected to result in a Material Adverse Effect;

(iii) a certificate of the clerk of the City attaching the resolutions of the City approving the Commercial Paper Documents and the transactions contemplated thereby, which certificate shall state that such resolutions have not been amended, rescinded and remain in full force and effect;

(iv) a certificate of the clerk of the City certifying the name, incumbency and signature of each individual authorized to sign the Commercial Paper Documents;

(v) a reliance letter addressed to the Bank authorizing the Bank to rely on the approving opinion of Bond Counsel dated as of the Closing Date;

(vi) an opinion of Counsel to the City, dated the Closing Date, and addressed to the Bank addressing such matters as the Bank may reasonably request;

(vii) an opinion of Counsel to the Authority, dated the Closing Date, and addressed to the Bank addressing such matters as the Bank may reasonably request;

(viii) an opinion of Counsel to the Issuing and Paying Agent, dated the Closing Date, and addressed to the Bank addressing such matters as the Bank may reasonably request;

(ix) (A) written evidence that, as of the Closing Date, the Commercial Paper Notes have been given a rating of not less than “VMIG-1” by Moody’s and “[]” by Fitch; and (B) recent written evidence (which may be in the form of recent rating letters or a screen shot of such ratings) that the Subordinated Obligations have been given Subordinated Obligation Ratings of not less than “Aa3” by Moody’s and “AA-” by Fitch;

(x) satisfactory written evidence that (A) a separate CUSIP number has been assigned to the Bank Note and (B) Moody’s has assigned to the Bank Note a long-term rating equal to or higher than investment grade.

(xi) a copy of the Offering Memorandum; and

(xii) such other documents, agreements, instruments, certificates and opinions as the Bank may reasonably require.

(b) On or before the Closing Date:

(i) the Bank shall be satisfied that the representations and warranties of the City contained herein and in any other City Document, of the Authority in the Authority Letter of Representations and of the Corporation contained in the Corporation Letter of Representations (A) which are not qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) shall be true and correct in all material respects to and (B) which are qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) shall be true and correct in all respects, in each case as of the Closing Date to the same extent as though made on and as of such date, except to the extent that such representations and warranties specifically relate to an earlier date and to the extent that any such representation or warranty specifically relates to an earlier date, such representation or warranty shall be true and correct as of such date;

(ii) the Bank shall be satisfied that no Event of Default shall have occurred and be continuing and no Event of Default will result from the issuance of the Letter of Credit; and

(iii) the Bank and its counsel shall be satisfied that the Bank and its counsel will receive payment in full of all fees and expenses contemplated herein in accordance with Section 2.2 hereof and the Fee Letter not later than thirty (30) days following the Closing Date;

(iv) the Bank shall be satisfied that no action, suit, investigation or proceeding is pending or threatened (i) in connection with the Commercial Paper Notes or the other

Commercial Paper Documents or any transactions contemplated thereby or (ii) against or affecting the City, the result of which could reasonably be expected to result in a Material Adverse Effect; and

(v) the Bank shall be satisfied that since June 30, [insert the year of the most recent CAFR], no material adverse change has occurred in the status of the business, operations or condition (financial or otherwise) of the Water System or the ability of the City to perform its obligations under the Commercial Paper Documents.

Section 3.2. Conditions to Bank Loans. The obligation of the Bank to make a Bank Loan in payment of an Unreimbursed Amount on the Liquidity Period End Date therefor is conditioned upon satisfaction by the Bank of the following conditions:

(a) the representations and warranties of the City contained herein and in any other City Document, of the Authority contained in the Authority Letter of Representations and of the Corporation contained in the Corporation Letter of Representations (i) which are not qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) shall be true and correct in all material respects to and (ii) which are qualified by materiality (including, without limitation, Material Adverse Change and Material Adverse Effect) shall be true and correct in all respects, in each case to the same extent as though made on and as of the Liquidity Period End Date, except to the extent that such representations and warranties specifically relate to an earlier date and to the extent that any such representation or warranty specifically relates to an earlier date, such representation or warranty shall be true and correct as of such date; and

(b) no Event of Default shall have occurred and be continuing and no Event of Default will result from the making of the Bank Loan.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE CITY

In order to induce the Bank to enter into this Reimbursement Agreement and to issue the Letter of Credit and to make Bank Loans hereunder, the City represents and warrants to the Bank that the following statements are true and correct:

Section 4.1. Organization. The City is a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California. The City has all requisite power and authority, rights and franchises to own and operate the Water System, to carry on the Water Service as now conducted and as proposed to be conducted, and to enter into and perform its obligations under the City Documents.

Section 4.2. Authorization, Conflicts, Binding Effect. The execution, delivery and performance of the City Documents by the City are within the City's powers and have been duly authorized by all necessary action by the City. The execution, delivery and performance of the City Documents by the City will not (i) violate the Act or its Charter or any other law, rule, regulation, order, writ, judgment, injunction, decree, determination, or award, (ii) require any consent or approval of any Person (other than those that have been obtained), (iii) conflict with,

result in a breach of or constitute a default under any indenture, instrument or agreement to which the City is a party or is subject, or by which it, or its property, is bound, or (iv) except as provided by the Commercial Paper Documents, result in or require the creation or imposition of any Lien upon or with respect to the Water System or the Net System Revenues. The City is not in violation of or default under any such Legal Requirement, and no condition exists that would, with the giving of notice or lapse of time, or both, constitute such a violation or default. The City Documents have each been duly executed by the City and are legally valid and binding obligations of the City, enforceable against the City in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws affecting creditors' rights generally and by general principles of equity.

Section 4.3. Litigation. Except as set forth on Exhibit E attached hereto, there is no action, suit, investigation, proceeding or arbitration, at law or in equity or before or by any foreign or domestic court or other Governmental Authority (a "Legal Action") pending or, to the knowledge of the City, threatened against or affecting the City, the Water System or the Water Service which could reasonably be expected to result in a Material Adverse Effect. Except as set forth on Exhibit E attached hereto, there is no Legal Action pending or, to the knowledge of the City, threatened against or affecting the City questioning the validity or the enforceability of any City Documents.

Section 4.4. Compliance with Laws. The City is in compliance in all material respects with all Legal Requirements affecting the Water System and the Water Service, except in such instances in which (i) such Legal Requirement is being contested in good faith by appropriate proceedings diligently conducted and for which appropriate reserves have been established or (ii) the failure to comply therewith would not have a Material Adverse Effect.

Section 4.5. Payment of Taxes. All tax returns and reports of the City with respect to the Water System required to be filed with any Governmental Authority have been timely filed, and all taxes, assessments, fees and other governmental charges, upon the City and upon the properties, assets, income and franchises of the Water System which are due and payable have been paid when due and payable on a current basis, except to the extent that such taxes are being contested by the City in good faith by appropriate proceedings and for which appropriate reserves have been established.

Section 4.6. Offering Memorandum. The information contained in the Offering Memorandum under the caption "THE CITY" is correct in all material respects.

Section 4.7. City Documents; Commercial Paper Documents. Each of the City Documents is in full force and effect and represents a valid and binding obligation of the City, enforceable in accordance with its respective terms; no Event of Default or "event of default" presently exists under any of the City Documents; nor has the City or any other party thereto waived or deferred performance of any material obligation under any other City Document.

Section 4.8. Reaffirmation of Representations and Warranties. The City hereby makes to the Bank the same representations and warranties as are set forth by the City in the Agreement, which representations and warranties, as well as the related defined terms contained

therein, are hereby incorporated by reference for the benefit of the Bank with the same effect as if each and every such representation and warranty and defined term were set forth herein in its entirety. No amendment to such representations and warranties or defined terms made pursuant to the Agreement shall be effective to amend such representations and warranties and defined terms as incorporated by reference herein without the prior written consent of the Bank.

Section 4.9. Regulatory Compliance. The City is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation T, U or X of the Board of Governors of the Federal Reserve System), and no part of the proceeds of Drawings under the Letter of Credit will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock or to violate Sanctions.

Section 4.10. Registration, Consent and Approval. The execution, delivery and performance by the City of this Reimbursement Agreement and the other City Documents do not and with respect to the execution and delivery will not require registration with, or the consent or approval of, or any other action by, any federal, State or other governmental authority or regulatory body other than those which have been made or given and are in full force and effect (except for any federal securities laws or Blue Sky regulations, as to which no representation is given).

Section 4.11. Liens. The Agreement creates, for the benefit and security of the Subordinated Credit Provider Reimbursement Obligations, including the Payment Obligations, the legally valid, binding and irrevocable subordinate lien on and pledge of the Net System Revenues. The Agreement does not permit the issuance of any debt secured by the Net System Revenues to rank senior to the Commercial Paper Notes or the Payment Obligations, other than Permitted Parity Obligations. The payment of Payment Obligations ranks on a parity with the payment of principal of and interest on Commercial Paper Notes and other Subordinated Obligations and is not subordinate to any payment secured by a lien on the Net System Revenues or any other claim other than payments with respect to the principal of and interest on Permitted Parity Obligations, and is prior as against all other persons having claims of any kind in tort, contract or otherwise, whether or not such persons have notice of the lien. No filing, registering, recording or publication of the Agreement or any other instrument is required to establish the pledge under the Agreement or to perfect, protect or maintain the lien created thereby on the Net System Revenues.

Section 4.12. Sovereign Immunity. The defense of sovereign immunity is not available to the City in any proceeding by the Bank to enforce any of the obligations of the City under this Reimbursement Agreement or the City Documents and, to the fullest extent permitted by law, the City consents to the initiation of any such proceeding in any federal or state court of competent jurisdiction located in the State.

Section 4.13. No Default. No Event of Default exists on the date hereof.

Section 4.14. ERISA. The City does not maintain or contribute to, and has not maintained or contributed to, any Plan that is subject to Title IV of ERISA.

Section 4.15. Enforceability. This Reimbursement Agreement and the other City Documents are the legal, valid and binding agreements of the City, enforceable against it in accordance with their respective terms, except as may be limited by (a) bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws or judicial decisions for the relief of debtors or the limitation of creditors' rights generally and (b) equitable principles of general applicability.

Section 4.16. Status under Certain Laws. The City is not an "investment company" or a person directly or indirectly controlled by or acting on behalf of an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 4.17. Payment Obligations Constitute Subordinated Obligations. The Payment Obligations constitute "Subordinated Credit Provider Reimbursement Obligations" and "Subordinated Obligations" as defined in the Agreement.

Section 4.18. Interest. None of the Commercial Paper Documents provide for any payments that would violate any applicable law regarding permissible maximum rates of interest.

Section 4.19. Financial Information. The audited financial statements of the City with respect to the Water System for the Fiscal Year ended June 30, 2016, true and correct copies of which have heretofore been delivered or made available to the Bank, fairly present, in conformity with GAAP, the financial position of the Water System and its results of operations and changes in financial position at the dates and for the periods indicated. Since June 30, 2016, there has been no material adverse change in the business, financial position or results of operations of the Water System. Except as reflected in the financial statements referenced above or as otherwise disclosed by the City to the Bank in writing, there are as of the date hereof no liabilities or obligations with respect to the City of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether or not due) which, in the aggregate, would be material to the Water System. The City does not know of any basis for the assertion against the City with respect to the Water System of any liability or obligation of any nature whatsoever that is not reflected in the financial statements referenced above or as otherwise disclosed by the City to the Bank in writing, which, in the aggregate, could be material to the Water System.

Section 4.20. Sanctions. The City (a) is not currently the subject of any Sanctions or in violation of any Anti-Corruption Laws, (b) is not located, organized or residing in any Designated Jurisdiction, or (c) is not nor has been (within the previous five (5) years) engaged in any transaction with any Person who is now or was then the subject of Sanctions or who is located, organized or residing in any Designated Jurisdiction.

Section 4.21. Swap Contracts. The City has not entered into any Swap Contract secured by Net System Revenues (a) wherein any termination payment thereunder is senior to or on a parity with the payment of the Payment Obligation or (b) which requires the City to post cash collateral to secure its obligations thereunder.

Section 4.22. Water System. The City owns all, right, title and interest in and to the assets of the Water System.

Section 4.23. Environmental Matters. In the ordinary course of its business, the City conducts an ongoing review of Environmental Laws on the business, operations and condition of the property of the Water System, in the course of which it identifies and evaluates associated liabilities and costs (including, but not limited to, any capital or operating expenditures required for clean-up or closure of properties currently or previously owned or operated, any capital or operating expenditures required to achieve or maintain compliance with environmental protection standards imposed by law or as a condition of any license, permit or contract, any related constraints on operating activities, including any periodic or permanent shutdown of any facility or reduction in the level of or change in the nature of operations conducted thereat and any actual or potential liabilities to third parties, including employees, and any related costs and expenses). On the basis of such review, the City has reasonably concluded that any non-compliance with Environmental Laws could not reasonably be expected to have a Material Adverse Effect.

Section 4.24. No Proposed Legal Changes. There is no amendment or, to the knowledge of the City, proposed amendment to the Constitution of the State, any State law or the Charter or any administrative interpretation of the Constitution of the State, any State law, or the Charter, the effect of which could reasonably be expected to have a Material Adverse Effect.

ARTICLE V

AFFIRMATIVE COVENANTS OF THE CITY

Until the later of the Termination Date or the date that all the Payment Obligations are paid in full, unless the Bank otherwise expressly consents in writing:

Section 5.1. Maintenance of Existence, Etc. The City will maintain and preserve its existence and all rights material to the Water System; maintain the Water System in good order and repair; and conduct the Water Service in an orderly manner without voluntary interruption. The City shall maintain its legal existence as a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California. The City shall take all actions reasonable and within its power and authority to cause the Authority to maintain its legal existence as a joint powers agency organized and existing under the Constitution and the laws of the State and to cause the Corporation to maintain its legal existence as a non-profit public benefit corporation organized and existing under the Constitution and the laws of the State.

Section 5.2. Access and Reporting. The City shall permit the representatives of the Bank at any time or from time to time during normal business hours and upon reasonable notice (which shall be not less than five (5) Business Days) and as often as the Bank may reasonably request to inspect all of its properties, books and records of the Water System and make copies thereof or extracts therefrom (except copies or extracts of records and books of accounts containing information that is not otherwise publicly available), and to discuss from time to time the affairs, finances and accounts of the Water System with its officers and its independent public accountant. The City shall maintain a system of accounting established and administered in accordance with GAAP reflecting all financial transactions of the Water System and the Water

Service. The City, at its expense, shall furnish or cause to be furnished to the Bank the following:

(a) By no later than each March 27th immediately following the end of each Fiscal Year, the complete Comprehensive Annual Financial Report (“CAFR”) of the City, certified as to the fairness of presentation and conformity with GAAP by a firm of independent public accountants of recognized national standing. Simultaneously with the delivery of the CAFR described in the preceding sentence, the City shall provide a letter from the Chief Financial Officer of the City addressed to the Bank stating that no Event of Default has come to his/her attention (after due inquiry) and was continuing at the end of such fiscal period or on the date of his/her letter or, if an Event of Default has occurred has come to his/her attention (after due inquiry) and was continuing as of such date, indicating the nature of such event and the action which the City proposed to take with respect thereto;

(b) As soon as practicable following publication, a copy of the Water System’s operating budget for each Fiscal Year;

(c) As soon as practicable upon (and in any event not more than five Business Days following) the City becoming aware of the existence of any Event of Default, the City will give prompt notice in writing to the Bank of the occurrence of such event and the action, if determined, that the City proposes to take in regard to such occurrence;

(d) As soon as practicable but in any event within thirty (30) days after the issuance or incurrance thereof, copies of any prospectus, official statement, offering circular, placement memorandum, or similar or corresponding document, and any supplements thereto and updates and amendments thereof, that the City makes available in connection with the offering for sale of any securities secured by a pledge of Net System Revenues, or, in the case of any ordinance, indenture, contract or agreement by the City involving the creation of any indebtedness secured by Net System Revenues, but not involving the offering for sale of any securities related thereto, a copy of such ordinance, indenture, contract or agreement creating the related obligation;

(e) On the same day as the filing thereof, a copy of all continuing disclosure documents filed by the City with respect to indebtedness of the City secured by Net System Revenues in compliance with Securities and Exchange Commission rules codified at 17 C.F.R. Section 240.15c2-12;

(f) Promptly upon learning thereof, notice of the occurrence of any event, occurrence or change in circumstance that could reasonably be expected to result in a Material Adverse Effect;

(g) As promptly as practicable upon the City becoming aware thereof, written notice of (i) all actions, suits or proceedings pending or, to the knowledge of the City, threatened against the City, the Authority or the Corporation relating to the Water System or the Water Service before any arbitrator of any kind or before any court or other Governmental Authority relating to the Water System or the Water Service which if determined adversely to the City, the Authority or the Corporation could reasonably be expected to result in a Material Adverse Effect, (ii) any significant investigation or proceeding against the City relating to the Water System or

any of its securities secured by Net System Revenues by the Securities and Exchange Commission, the Department of Justice or the Internal Revenue Service which if determined adversely to the City, could reasonably be expected to result in a Material Adverse Effect, and (iii) any significant criminal investigation or proceeding by a Governmental Authority relating to the Water System or the Water Service involving the City, the Authority or the Corporation or any officer or member of the governing board of the City, the Authority or the Corporation;

(h) As promptly as practicable upon the City becoming aware thereof, the City shall furnish, or cause to be furnished, to the Bank (i) notice of the occurrence of any “event of default” under the Issuing and Paying Agent Agreement, any other Commercial Paper Document to which it is a party or any other document pursuant to which indebtedness secured by Net System Revenues is issued, incurred, enhanced or purchased, and (ii) notice of the failure by any Dealer or the Issuing and the Paying Agent to perform any of their respective obligations under the applicable Dealer Agreement or the Issuing and Paying Agent Agreement, as applicable;

(i) As promptly as practicable upon the City becoming aware thereof (and in any event on the same day as the posting thereof on EMMA), notice of any change in, or the suspension, withdrawal or unavailability of, any unenhanced long-term rating on any indebtedness secured by Net System Revenues; and

(j) Such other information respecting the operations and properties, financial or otherwise, of the Water System as the Bank may from time to time reasonably request.

As and to the extent that the requirements described above can be satisfied by the posting of same on EMMA or the City’s website, the City shall be deemed to have satisfied the reporting requirements set forth above as long as posting occurs within the applicable time frame described above.

Section 5.3. Further Assurances. From time to time hereafter, the City will, and shall take all actions reasonable and within its power and authority to cause the Authority and the Corporation to, execute and deliver such additional instruments, certificates or documents, and will take all such actions as the Bank may reasonably request, for the purposes of implementing or effectuating the provisions of this Reimbursement Agreement and the Commercial Paper Documents, or for the purpose of more fully perfecting or renewing the Bank’s rights with respect to the rights, properties or assets subject to such Commercial Paper Documents (or with respect to any additions thereto or replacements or proceeds thereof or with respect to any other property or assets hereafter acquired by the City which are or become a part thereof) pursuant hereto or thereto. Without limiting the generality of the foregoing, upon the exercise by the Bank of any power, right, privilege or remedy pursuant to this Reimbursement Agreement or the other Commercial Paper Documents which requires any consent, approval, registration, qualification or authorization of any Governmental Authority, the City will, and shall take all actions reasonable and within its power and authority to cause the Authority and the Corporation to, execute and deliver all necessary applications, certifications, instruments and other documents and papers that may be required in order to obtain such governmental consent, approval, registration, qualification or authorization.

Section 5.4. Application of Proceeds. The City shall apply the proceeds of the Commercial Paper Notes solely and entirely to the purposes specified in the Indenture and the Agreement and not to acquire any “margin stock” (as defined in Regulation U promulgated by the Federal Reserve Bank) and not in violation of any Legal Requirement, including Sanctions.

Section 5.5. Compliance with Legal Requirements. The City will comply in all material respects with all Legal Requirements affecting the Water System and the Water Service, except where (i) such Legal Requirement is being contested in good faith by appropriate proceedings diligently conducted and for which appropriate reserves have been established or (ii) the failure to comply therewith would not have a Material Adverse Effect.

Section 5.6. Payment of Obligations. The City will duly and punctually pay or cause to be paid all principal of and interest on any and all Obligations of the Water System unless diligently contested in good faith and by appropriate proceedings by the City and for which appropriate reserves have been established, subject to the exceptions, limitations and waivers set forth in the documents under which such Obligation was incurred.

Section 5.7. Performance of Covenants. The City agrees that it will perform and comply with each and every covenant and agreement required to be performed or observed by it in the Agreement which provisions, as well as related defined terms contained therein, are hereby incorporated by reference herein with the same effect as if each and every such provision were set forth herein in its entirety all of which shall be deemed to be made for the benefit of the Bank and shall be enforceable by the Bank against the City, which covenants, agreements, definitions and provisions shall continue in effect with regard to the Bank without regard or giving effect to any amendment or modification of such provisions or any waiver of compliance therewith unless consented to in writing by the Bank.

Section 5.8. Rate Covenant. The City shall fix, prescribe and collect rates and charges for the Water System which will at least be sufficient to comply with the requirements of Section 6.08 of the Agreement.

Section 5.9. Maintenance of Insurance. The City shall procure and maintain or cause to be procured and maintained insurance on the Water System to the extent required by Section 6.11 of the Agreement.

Section 5.10. ERISA. The City will comply in all material respects with Title IV of ERISA, if, when and to the extent applicable.

Section 5.11. Compliance with Laws, Etc. The City will comply with all Governmental Requirements applicable to the Water System (including the assets thereof), the conduct of the business of the Water Service and applicable Legal Requirements, except where the failure to do so would not have a Material Adverse Effect.

Section 5.12. Taxes.

(a) Any and all payments by the City hereunder shall be made in accordance with Section 2.6 hereof without setoff, defense or claim and shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or

withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, fines, additions to tax or penalties applicable thereto, and all liabilities with respect thereto, excluding Excluded Taxes (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the City shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Bank, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 5.12) the Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the City shall make such deductions and (iii) the City shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and shall provide the Bank with written evidence of the payment thereof as soon as practicable.

(b) In addition, the City agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder, under the Fee Letter or under the Bank Note or from the execution, delivery or registration of, or otherwise with respect to, this Reimbursement Agreement, the Fee Letter and the Bank Note (hereinafter referred to as "Other Taxes").

(c) The City will indemnify the Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 5.12) paid by the Bank and any liability (including penalties, interest and expenses, other than those penalties, interest and expenses arising from the gross negligence or willful misconduct of the Bank) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within thirty (30) days from the date the Bank makes written demand therefor. The Bank shall notify the City in writing reasonably promptly after determining that Taxes or Other Taxes may be payable hereunder.

(d) If the City makes any additional payment to the Bank pursuant to this Section 5.12 in respect of any Taxes or Other Taxes, and the Bank in its sole discretion determines that it has received (i) a refund of such Taxes or Other Taxes or (ii) a credit against or relief or remission for, or a reduction in the amount of, any tax or other governmental charge solely as a result of any deduction or credit for any Taxes or Other Taxes with respect to which it has received payments under this Section 5.12, the Bank shall, to the extent that it can do so without prejudice to the retention of such refund, credit, relief, remission or reduction, pay to the City such amount as the Bank shall have reasonably determined in its sole discretion to be attributable to the deduction or withholding of such Taxes or Other Taxes (not to exceed the amount the Bank previously received from the City pursuant to this Section 5.12), without interest. If the Bank later determines that it was not entitled to such refund, credit, relief, remission or reduction to the full extent of any payment made pursuant to the first sentence of this Section 5.12(d), the City shall upon demand of the Bank promptly repay the amount of such overpayment. Any determination made by the Bank pursuant to this Section 5.12(d) shall in the absence of bad faith or manifest error be conclusive, and nothing in this Section 5.12(d) shall be construed as requiring the Bank to conduct its business or to arrange or alter in any respect its tax or financial affairs so that it is entitled to receive such a refund, credit or reduction or as allowing any person to inspect any records, including tax returns, of the Bank. Nothing contained in this

Section 5.12 shall require the Bank to disclose to the City any tax return of the Bank or any tax return of the consolidated group of which the Bank is a party.

(e) Without prejudice to the survival of any other agreement of the City hereunder, the obligation of the City under this Section shall survive the termination of the Letter of Credit and the termination of this Reimbursement Agreement and the repayment of all amounts owing to the Bank hereunder and under the other Commercial Paper Documents.

Section 5.13. Sovereign Immunity. To the extent permitted by law, in the event the City has or hereafter acquires under any applicable law any right of immunity from set off or legal proceedings on grounds of sovereignty or otherwise, the City hereby waives such rights to immunity for itself in all disputes or legal actions brought by the Bank with respect to obligations of the City arising under this Reimbursement Agreement or any other Commercial Paper Document to which the City is a party.

Section 5.14. Maintenance of Ratings. The City shall cause to be maintained at least: (i) one Subordinated Obligation Rating at all times; provided, however, that in no event may the City terminate or request a withdrawal of a Subordinated Obligation Rating in order to cure a Default or an Event of Default or to reduce any amount payable or to become payable under the Fee Letter, and (ii) one long-term rating assigned to the Bank Note.

Section 5.15. Preservation of Security. The City shall, and shall take all actions reasonable and within its power and authority to cause the Authority and the Corporation to, take any and all actions necessary or reasonably requested by the Bank to defend and maintain the pledge of Net System Revenues to secure the Payment Obligations.

Section 5.16. Issuing and Paying Agent and Dealer.

(a) The City shall, and shall take all actions reasonable and within its power and authority to cause the Authority, at all times maintain a Dealer with respect to the Commercial Paper Notes. The City shall, and shall cause the Authority and the Corporation to, use its respective best efforts at all times to enforce the Dealer Agreement. The City shall, and shall cause the Authority and the Corporation to, cause the Dealer to use its best efforts to sell the Commercial Paper Notes up to the maximum rate applicable in order to repay maturing Commercial Paper Notes. Each Dealer Agreement shall provide that the related Dealer may not resign until the date which is at least sixty (60) days following the receipt by the City, the Authority, the Issuing and Paying Agent and the Bank of prior written notice of such resignation.

(b) The City shall, and shall take all actions reasonable and within its power and authority to cause the Authority to, at all times maintain an Issuing and Paying Agent pursuant to the terms of the Issuing and Paying Agent. Any successor Issuing and Paying Agent (or any parent or affiliate of such Issuing and Paying Agent) shall have capital of not less than \$500,000,000. The City shall, and shall cause the Authority and the Corporation to, use its respective best efforts at all times to enforce the Issuing and Paying Agency Agreement.

Section 5.17. Bank Agreements. In the event that City shall enter into or otherwise consent to any amendment, supplement or other modification of any Bank Agreement after the Closing Date which Bank Agreement contains additional or more restrictive covenants or

additional or more restrictive events of default or additional collateral (“Improved Provisions,” which for the avoidance of doubt does not include pricing, termination fees and provisions related to interest rates) in each than the provisions of this Reimbursement Agreement, then the City shall provide the Bank with a copy of such Bank Agreement and the Improved Provisions shall automatically be deemed incorporated into this Reimbursement Agreement and the Bank shall have the benefit of the Improved Provisions until such time as the Bank Agreement containing such Improved Provisions terminates. The City shall promptly cooperate with the Bank to enter into an amendment of this Agreement to include such Improved Provisions.

ARTICLE VI

NEGATIVE COVENANTS OF THE CITY

Until the later of the Termination Date or the date that all Payment Obligations are paid in full, unless the Bank otherwise expressly consents in writing:

Section 6.1. Amendments to Commercial Paper Documents. The City shall not, and to the extent within its power and authority shall not permit the Authority or the Corporation to, enter into or consent to any amendment to, modification of or waiver of compliance with the provisions of any of the Commercial Paper Documents other than the Bank Documents, except that the City, the Authority or the Corporation, as the case may be, may amend, modify or waive any term or provision with respect to any Commercial Paper Document other than the Bank Documents in a manner (i) not relating to the duties, obligations or rights of the Bank under this Reimbursement Agreement, as determined in the Bank’s reasonable discretion, or (ii) not having an adverse effect, as determined in the Bank’s reasonable discretion, on (x) the ability of the City, the Authority or the Corporation to timely pay when due the principal of or interest on the Commercial Paper Notes and the obligations of the City under Bank Documents or (y) the security, rights or remedies of the Bank hereunder or under any other Commercial Paper Document. In connection with any such amendment, modification or waiver, the City agrees to deliver to the Bank copies of all such amendments, modifications or waivers at least fifteen (15) calendar days prior to the effective date thereof. The Bank shall, within ten (10) calendar days after receiving such copies, inform the City in writing if, in the Bank’s reasonable discretion, such amendment, modification or waiver requires the prior written consent of the Bank in accordance with this Section 6.1(a).

Section 6.2. Additional Obligations. The City shall not:

(a) Create any Obligations, the payments of which are senior or prior in right to the payment by the City of Parity Obligations.

(b) Create any Obligations, the payments of which are on a parity in right to the payment by the City of the Parity Obligations, except for Permitted Parity Obligations.

(c) Create any Obligations, the payments of which are on a parity in right to the payment by the City of the Subordinated Obligations, except for Permitted Subordinated Obligations.

Section 6.3. Sale or Other Disposition of Property. The City shall comply with the requirements of Section 6.04 of the Agreement.

Section 6.4. Encumbrances. The City shall comply with the requirements of Section 6.02 of the Agreement.

Section 6.5. Substitute Subordinated Credit Support Instrument. The City shall not substitute an Alternate Subordinated Credit Support Instrument for the Letter of Credit unless (i) the City shall have given the Bank and the Issuing and Paying Agent at least fifteen (15) days' prior written notice, (ii) contemporaneously with the effectiveness of such Alternate Subordinated Credit Support Instrument all obligations of the City owing to the Bank hereunder, under the Fee Letter and under the Bank Note are paid in full, including without limitation any Payment Obligations and any Unreimbursed Amounts and Bank Loans plus accrued and unpaid interest thereon and any termination fee due and owing hereunder or under the Fee Letter to but excluding the date such Alternate Subordinated Credit Support Instrument becomes effective and (iii) the City has complied with Section 2.9 hereof.

Section 6.6. Tax Covenant. The City shall comply with the requirements of Section 6.17 of the Agreement.

Section 6.7. Disclosure. The City shall not change any reference to the Bank in the Offering Memorandum without the Bank's prior written consent thereto. The City shall not make reference to any financial information relating to the Bank or the Bank's long or short-term debt ratings in any offering document other than the Offering Memorandum without the Bank's prior written consent thereto.

Section 6.8. Swap Contracts. The City shall not, and to the extent within its power and authority shall not permit the Authority or the Corporation to, enter into any Swap Contract secured by Net System Revenues (a) wherein any termination payments thereunder are senior to or on parity with the payment of the Commercial Paper Notes or the Payment Obligations or (b) which requires the City, the Authority or the Corporation to post cash collateral to secure its obligations thereunder.

Section 6.9. Water System. The City shall not, and to the extent within its power and authority shall not permit the Authority or the Corporation to, construct, operate or maintain, or permit any other public or private corporation, political subdivision, district or agency or any Person whatsoever to construct, operate or maintain, within the City or any part thereof, any system or utility competitive with the Water System. The City shall comply with the requirements of Section 6.15 of the Agreement.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 7.1. Events of Default. “Event of Default” shall mean any of the following events:

(a) The City shall fail to pay to the Bank when due (whether upon demand or otherwise) (i) the principal of, or interest on, any Unreimbursed Amount or Bank Loan or (ii) any other any of the Payment Obligation and such default shall remain unremedied for five (5) Business Days; or

(b) (i) the City fails to perform or observe any term, covenant or agreement contained in Section 5.1, 5.2(c), 5.4 and Article VI; or (ii) the City fails to perform or observe any other term, covenant or agreement contained in this Reimbursement Agreement (other than those referred to in Sections 7.1(a) and (b)(i)) or any other City Document and such failure shall not have been cured within thirty (30) days after the earlier to occur of (x) the date of delivery of written notice of such failure to the City by the Bank, and (y) the date on which the City has actual knowledge of such failure; or

(c) The City shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of the City or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts, (vi) fail to controvert in a timely or appropriate manner, or acquiesce, any petition filed against the City in any involuntary case under said Federal Bankruptcy Code, or (viii) take any action for the purpose of effecting any of the foregoing; or

(d) A proceeding or case shall be commenced, without the application or consent of the City, in any court of competent jurisdiction, seeking (i) the liquidation, reorganization, dissolution, winding up or composition or readjustment of debts of the City, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like, of the City, or of all or any substantial part of the City’s assets, or (iii) similar relief in respect of the City under any law relating to bankruptcy, insolvency, reorganization, winding up or composition, moratorium, repudiation or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of sixty (60) days from commencement of such proceeding or case, or an order for relief against the City shall be entered in an involuntary case under said Federal Bankruptcy Code; or

(e) A debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction is imposed by any Governmental Authority (including the City) on the repayment when due and payable of the principal of or interest on any indebtedness of the City payable from, and secured by, Net System Revenues or any portion thereof; or

(f) Any representation or warranty (i) made by the City in this Reimbursement Agreement or in any other City Document or in any certificate or statement delivered hereunder or thereunder that is not qualified by the concept of “materiality” shall be incorrect or untrue in any material respect when made or deemed to have been made or delivered or (ii) made by the City in this Reimbursement Agreement or in any other City Document or in any certificate or statement delivered hereunder or thereunder that is qualified by the concept of “materiality” shall be incorrect or untrue in any respect when made or deemed to have been made or delivered; or

(g) The independent certified public accountants retained by the City shall fail or refuse to deliver an opinion, unqualified in scope (other than an opinion qualified as a result of a change in application of GAAP, such change being one with which such accountants concur) with respect to the financial statements of the City; or

(h) (i) Any material provision of this Reimbursement Agreement or any other Commercial Paper Document (other than the Letter of Credit) (1) shall at any time for any reason cease to be valid and binding on the City, the Authority or the Corporation (with respect to those Commercial Paper Documents to which the City, the Authority or the Corporation, as the case may be, is a party), or (2) shall be declared to be null and void, or (ii) the validity or enforceability thereof shall be contested by the City, the Authority or the Corporation (with respect to those Commercial Paper Documents to which the City, the Authority or the Corporation, as the case may be, is a party), or (iii) the City, the Authority or the Corporation (with respect to those Commercial Paper Documents to which the City, the Authority or the Corporation, as the case may be, is a party) shall deny that it has any or further liability or obligation under this Reimbursement Agreement or any of the other Commercial Paper Documents to which it is a party; or

(i) (i) One or more final, non-appealable judgments against the City for the payment of money from System Revenues not covered by insurance (excluding any insured judgment if the insurer has disputed coverage thereof in writing), the operation and result of which, individually or in the aggregate, equal or exceed \$15,000,000 shall remain unpaid as and when due (i.e., if such judgment allows for payment over time), unstayed, undischarged, unbonded or undismissed for a period of forty-five (45) days; or (ii) any of the System Revenues shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within sixty (60) calendar days after its issue or levy; or

(j) The occurrence of an “event of default” or an event which, with the passage of time or the giving of notice, or both, would be an “event of default” under the Agreement, if the result is to permit an acceleration of the obligations thereunder; or

(k) The City fails to make any payment with respect to any Parity Obligation, any Permitted Parity Obligations, any Subordinated Obligations or any Subordinated Credit Provider Reimbursement Obligations when due or any other event or condition shall occur which would permit the acceleration of the maturity of any such Parity Obligations, Permitted Parity Obligations, Subordinated Obligation or Subordinated Credit Provider Reimbursement Obligation; or

(l) Any of the Subordinated Obligation Ratings by the Rating Agencies then rating the Subordinated Obligations shall be withdrawn or suspended for credit related reasons or shall be reduced below “Baa3” (or its equivalent) by Moody’s or “BBB-” (or its equivalent) by Fitch.

Section 7.2. Remedies. Upon the occurrence and continuance of an Event of Default, the Bank may, in its sole discretion, but shall not be obligated to:

(a) declare the unpaid principal amount of all outstanding Bank Loans and all Unreimbursed Amounts, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Bank Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the City; provided, however, that such acceleration shall occur immediately without any action upon the occurrence of an Event of Default set forth in Section 7.1(c) or 7.1(d) hereof; or

(b) terminate or suspend the authority of the City and the Issuing and Paying Agent to issue any further Commercial Paper Notes and reduce the Stated Amount of the Letter of Credit to an amount equal to the principal amount of Commercial Paper Notes then Outstanding supported by the Letter of Credit, plus interest payable thereon at maturity of the Commercial Paper Notes, by delivering to the Issuing and Paying Agent a Notice of No Issuance; or

(c) issue a Final Drawing Notice (the effect of which shall be to cause the Termination Date of the Letter of Credit to occur on the 15th day after the date of receipt thereof by the Issuing and Paying Agent); or

(d) enforce the rights and obligations of the City under the Commercial Paper Documents as if the Bank were a party thereto; or

(e) exercise any other remedies available at law or in equity.

Upon the exercise by the Bank of any remedy contained in clauses (a), (b) or (c) of this Section 7.2, the Stated Amount of the Letter of Credit shall be immediately and permanently reduced by an amount equal to the amount of each subsequent Drawing. Upon the occurrence and during the continuance of an Event of Default all Payment Obligations shall bear interest at the Default Rate.

Section 7.3. Set-Off. The Bank hereby waives any rights now or hereafter granted under applicable law to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Bank to or for the credit or the account of the City or the Water Utility Fund against and on account of any and all of the obligations of the City now or hereafter existing under this Reimbursement Agreement, the Bank Note, or the Letter of Credit.

Section 7.4. Remedies Cumulative. All remedies provided for in this Reimbursement Agreement are cumulative and shall be in addition to any and all other rights and remedies available under the Commercial Paper Documents or any other document or at law or equity. No exercise of any right or remedy shall in any way constitute a cure or waiver of any Event of Default hereunder, or invalidate any act done pursuant to any notice of default, or prejudice the

exercise of any other right or remedy available to the Bank. No failure to exercise, and no delay in exercising, any right or remedy shall operate as a waiver or otherwise preclude enforcement of any of the Bank's rights and remedies; nor shall any single or partial exercise of any right or remedy preclude any further exercise thereof or of any other right or remedy. The Bank need not resort to any particular right or remedy before exercising or enforcing any other.

ARTICLE VIII

MISCELLANEOUS

Section 8.1. Notices. All notices and other communications hereunder shall be in writing and shall be delivered by personal delivery, facsimile transmission or other form of telecommunication, or by first class mail (postage prepaid), to the notice addresses set forth below or to such other addresses or payment instructions as the parties may provide to one another in accordance with this Section. Such notices and other communications shall, if sent by facsimile transmission or other form of telecommunication in accordance with this Section, be deemed given upon transmission thereof, confirmed by telephone, and if sent by any other method, shall be effective only if and when received by the addressee.

Address for notices to the City:

City of San Diego
[]
San Diego, California []
Attention: []
Telephone: ([]) []-[]
Telefax: ([]) []-[]

and copy to:

City of San Diego
[]
San Diego, California []
Attention: []
Telephone: ([]) []-[]
Telefax: ([]) []-[]

Address for notices to the Bank:

If to the Bank regarding credit matters:

Bank of America, N.A.
[]
[]
Attention: []
Telephone: ([]) []-[]
Facsimile: ([]) []-[]
E Mail: []

If to the Bank regarding operational matters:

Bank of America, N.A.

[]

[]

Attention: []

Telephone: ([])[]-[]

Facsimile: ([])[]-[]

E Mail: []

Wire instructions with respect to payment of Payment Obligations (other than reimbursement of Drawings):

[Insert wire instructions]

Wire instructions with respect to reimbursement of Drawings under the Letter of Credit:

[Insert wire instructions]

Section 8.2. Amendments, Waivers, Etc. No amendment or waiver of any provision of this Reimbursement Agreement or other Commercial Paper Document, nor consent to any departure by the City herefrom or therefrom, shall in any event be effective unless the same shall be in writing and signed by the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 8.3. Indemnification. (a) To the extent permitted by law, the City hereby agrees to indemnify and hold harmless the Bank, its officers, directors, employees and agents (collectively, the "Indemnitees") from and against any and all suits, claims, damages, losses, liabilities, costs or expenses (including reasonable fees and expenses of counsel) that any Indemnitee may incur (or that may be claimed against the Indemnitees by any Person) in connection with the Offering Memorandum, the offering and sale of the Commercial Paper Notes, the issuance of the Bank Note, the issuance by the Bank of the Letter of Credit or any of the other transactions contemplated by the Commercial Paper Documents; provided, however, that the City shall not be required to indemnify the Bank for any suits, claims, damages, losses, liabilities, costs or expenses that are determined by a final order of a court of competent jurisdiction to have been caused by (i) the Bank's willful misconduct or gross negligence in determining whether documents presented under the Letter of Credit comply with the terms of the Letter of Credit, (ii) the Bank's willful failure to make lawful payment under the Letter of Credit after the presentation to it by the Issuing and Paying Agent of a certificate strictly complying with the terms and conditions of the Letter of Credit (as long as such certificate is properly presented prior to the termination or expiration of the Letter of Credit) or (iii) the inaccuracy of any description of the Bank provided in writing by the Bank for inclusion in the Offering Memorandum.

(b) Upon receiving knowledge of any suit, claim or demand asserted by a third party that any Indemnitee believes is covered by this indemnity, the Bank shall give the City notice of the matter; provided that failure to give such notice shall not relieve the City of any of its obligations hereunder, unless and solely to the extent that such failure shall have materially

prejudiced the City's ability to defend against such suit, claim or demand. Notwithstanding anything else contained herein, each Indemnatee shall have the right to employ its own counsel and to determine its own defense of any such Liability, but the fees and expenses of such counsel shall be at the expense of such Indemnatee unless (i) the employment of such counsel shall have been authorized in writing by the City, (ii) the City, after due notice of the action, shall not have employed counsel satisfactory to and with the consent of such Indemnatee to have charge of such defense, in either of which events the reasonable fees and expenses of counsel for such Indemnatee shall be borne by the City, (iii) there are defenses available to such Indemnatee that are not available to the City and which cannot, in the reasonable opinion of such Indemnatee, be vigorously pursued by counsel selected by the City or (iv) such suit, claim or demand seeks injunctive relief against such Indemnatee, in which case the City shall pay the fees and expenses of counsel selected by such Indemnatee. The City shall not be liable for any settlement of any such action effected without its consent, which consent shall not be unreasonably withheld, delayed or conditioned. Should the City's consent be unreasonably withheld, delayed or conditioned, an Indemnatee shall have the right to file an action for breach of this Reimbursement Agreement against City for its unreasonable refusal to approve (or its delay in approving or conditioning of approval) such settlement, and City shall fully indemnify such Indemnatee for its costs and fees (including, but not limited to, attorneys' fees) for bringing such an action and for any and all liabilities, losses, fees and expenses sustained or incurred by such Indemnatee as a result of the City's unreasonable refusal to approve (or delay in approving or conditioning of approval) such settlement.

(c) Nothing in this Section is intended to limit the obligations of the City contained in Article 2. Without prejudice to the survival of any other obligation of the City hereunder, the indemnities and obligations of the City contained in this Section shall survive performance of all obligations hereunder and the termination of the Letter of Credit or the exercise by the Bank of any of its remedies under this Reimbursement Agreement or any other Commercial Paper Document and the repayment of all amounts owing to the Bank hereunder and under the other Commercial Paper Documents.

Section 8.4. Liability of the Bank. As to the Bank, the City assumes all risks of the acts or omissions of the Trustee, the Dealers and the Issuing and Paying Agent with respect to their use of the Letter of Credit and the proceeds thereof and the proceeds of the Commercial Paper Notes; provided, however, that this assumption is not intended to, and shall not, preclude the City from pursuing such rights and remedies as it may have against the Trustee or the Issuing and Paying Agent at law or under any other agreement. Neither the Bank nor any of its officers, directors, employees or agents shall be liable or responsible for:

(a) the use made of the Letter of Credit or any proceeds of the Letter of Credit or for any acts or omissions of the Trustee, the Dealers or the Issuing and Paying Agent;

(b) the validity, sufficiency or genuineness of any documents, or endorsements, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged;

(c) payment by the Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear adequate reference to the Letter of Credit; or

(d) any other circumstances in making or failing to make payment under the Letter of Credit;

provided, however, that the City shall have a claim against the Bank, and the Bank shall be liable to the City for direct, but not consequential, special, exemplary, indirect or punitive damages suffered by the City which were determined by a final order of a court of competent jurisdiction to have been caused solely by the willful misconduct or gross negligence of the Bank in connection with drawings under the Letter of Credit. By way of amplification, the Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary. Subject to the foregoing, the determination of whether a Drawing has been presented under the Letter of Credit prior to the Termination Date or whether a Drawing under the Letter of Credit or any accompanying document or instrument is in proper and sufficient form shall be made by the Bank in its sole discretion, which determination shall be conclusive and binding upon the City. The City hereby waives any right to object to any payment made under the Letter of Credit against a Drawing with accompanying documents in the forms provided for in the Letter of Credit but varying in punctuation, capitalization, spelling or similar matters of form.

Section 8.5. Successors and Assigns. This Reimbursement Agreement and the Fee Letter are continuing obligations and shall be binding upon the Bank, the City, and their respective successors, transferees and assigns, and shall inure to the benefit of and be enforceable by the Bank, the City and their respective successors, transferees and assigns; provided, however, that the City shall not assign all or any part of this Reimbursement Agreement, the Fee Letter or the Bank Note without the prior written consent of the Bank.

Section 8.6. Governing Law. This Reimbursement Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State.

Section 8.7. Survival of Warranties. All agreements, representations and warranties made in this Reimbursement Agreement and in any related certificates shall survive the execution and delivery of this Reimbursement Agreement and the issuance and expiration of the Letter of Credit and the repayment of the Commercial Paper Notes, and shall continue until any and all the Payment Obligations shall have been paid and performed in full.

Section 8.8. Severability. Any provision of this Reimbursement Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 8.9. Counterparts. This Reimbursement Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, and all of which counterparts, taken together, shall constitute but one and the same agreement.

Section 8.10. Time of Essence. Time is of the essence of this Reimbursement Agreement and of each provision in which time is an element.

Section 8.11. Headings. Article, section and other headings in this Reimbursement Agreement are for convenience of reference only and shall not constitute a part of this Reimbursement Agreement for any other purpose.

Section 8.12. Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any one of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of an Event of Default if such action is taken or condition exists.

Section 8.13. Entire Agreement. This Reimbursement Agreement, including Exhibits A-B, together with the other Bank Documents, integrates all of the terms and conditions mentioned herein and therein or incidental hereto or thereto, and supersedes all negotiations or prior or contemporaneous agreements, whether written or oral, between the parties hereto with respect to the subject matter hereof and thereof.

Section 8.14. No Personal Liability. Notwithstanding anything to the contrary contained herein or in any of the Commercial Paper Documents, no stipulation, covenant, agreement or obligation contained herein or therein shall be deemed or construed to be a stipulation, covenant, agreement or obligation of any present or future trustee, officer, employee or agent of the City or the Bank, or of any incorporator, trustor, member, director, trustee, officer, employee or agent of any successor to the City or the Bank, in any such Person's individual capacity, and no such Person, in his individual capacity, shall be liable personally for any breach or nonobservance of or for any failure to perform, fulfill or comply with any such stipulations, covenants, agreements or obligations, nor shall any recourse be had against any present or future trustee, officer, employee or agent of City for the performance or payment of the Payment Obligations or against any present or future trustee, officer, employee or agent of the City or the Bank for any claim based thereon or on any such stipulation, covenant, agreement or obligation, against any such Person, in his individual capacity, either directly or through the City or the Bank or any successor to the City or the Bank, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such Person, in his individual capacity, is hereby expressly waived and released.

Section 8.15. Maximum Rate. This Reimbursement Agreement is subject to the express condition that at no time shall the City be obligated or required to pay interest on any Payment Obligations at a rate that could subject the Bank to either civil or criminal liability as a result of such rate being in excess of the maximum interest rate that the City is permitted by law to contract or agree to pay. If the rate of interest payable on any Payment Obligation shall exceed the Maximum Rate for any period for which interest is payable, then (a) interest at the Maximum Rate shall be due and payable with respect to such interest period, and, to the extent permitted by law, (b) interest at the rate equal to the difference between (i) the rate of interest calculated in accordance with the terms hereof and (ii) the Maximum Rate (the "Excess Interest"), shall be deferred until such date as the rate of interest calculated in accordance with the terms hereof ceases to exceed the Maximum Rate, at which time the City shall pay to the Bank, with respect

to amounts then payable to the Bank that are required to accrue interest hereunder, such portion of the deferred Excess Interest as will cause the rate of interest then paid to the Bank to equal the Maximum Rate, which payments of deferred Excess Interest shall continue to apply to such unpaid amounts hereunder until all deferred Excess Interest is fully paid to the Bank. To the extent permitted by law, upon the date all Payment Obligations are payable hereunder following the termination of the Letter of Credit, in consideration for the limitation of the rate of interest otherwise payable hereunder, the City shall pay to the Bank a fee equal to the amount of all unpaid deferred Excess Interest. Any Excess Interest shall, to the extent permitted by law, bear interest at the Bank Rate until paid in full.

Section 8.16. Participations. The Bank may sell participations to one or more banks or other entities in or to all or a portion of its rights and obligations under this Reimbursement Agreement and the other Commercial Paper Documents (including, without limitation, all or a portion of the Letter of Credit and the Payment Obligations owing to it); provided, however, that (i) the Bank's obligations under this Reimbursement Agreement and the Letter of Credit shall remain unchanged, (ii) the Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, and (iii) the City shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under this Reimbursement Agreement and the other Commercial Paper Documents. Each Participant shall be entitled to the benefits of Section 5.12 to the same extent as the Bank.

(a) The Bank may, in connection with any participation or proposed participation pursuant to this Section 8.17, disclose to the participant or proposed participant any information relating to the City, the Authority and the Corporation furnished to the Bank by or on behalf of the City, provided that the participant shall agree to maintain the confidentiality of any non-public information provided to the Bank.

(b) The City shall not be responsible for any cost or expense incurred by the Bank in connection with any participation in the Payment Obligations or the Letter of Credit.

Section 8.17. No Waiver, Remedies. No failure on the part of the Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 8.18. USA Patriot Act. The Bank hereby notifies the City that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56, signed into law October 26, 2001) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the City, which information includes the name and address of the City and other information that will allow the Bank to identify the City in accordance with the Patriot Act, and the City hereby agrees to take any action necessary to enable the Bank to comply with the requirements of the Patriot Act.

Section 8.19. Anti-Money Laundering; OFAC; Patriot Act. The City hereby agrees to, and shall take all actions reasonable and within its power and authority to cause the Authority and the Corporation to, provide documentary and other evidence as may be reasonably requested

by the Bank at any time to enable the Bank to verify the identity of the City, the Authority and the Corporation, as the case may be, or to comply with any applicable law or regulation, including, without limitation, regulations of the Office of Foreign Assets Control and Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

Section 8.20. Assignment to Federal Reserve Bank. The City hereby consents and agrees that the Bank may at any time assign or pledge a security interest in all or any portion of its rights under this Reimbursement Agreement and the Bank Note to secure its obligations, including any pledge or assignment to secure obligations to a Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, provided that any payment in respect of such assigned Payment Obligations made by the City to the Bank in accordance with the terms of this Reimbursement Agreement shall satisfy the City's Payment Obligations hereunder in respect of such assigned Payment Obligation to the extent of such payment. No such assignment shall release the Bank from its obligations hereunder or under the Letter of Credit.

Section 8.21. Waiver of Jury Trial. The City and the Bank hereby irrevocably waive, to the fullest extent permitted by law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Reimbursement Agreement or any Commercial Paper Document or the transactions contemplated hereby or thereby. In the event the foregoing waiver is void or unenforceable, the parties agree that if any action or proceeding is filed in a court of the State by or against any party hereto in connection with any of the transactions contemplated by this Reimbursement Agreement or the Fee Letter, (i) the court shall, and is hereby directed to, make a general reference pursuant to California Code of Civil Procedure Section 638 to a referee (who shall be a single active or retired judge) to hear and determine all of the issues in such action or proceeding (whether of fact or of law) and to report a statement of decision, provided that at the option of any party to such proceeding, any such issues pertaining to a "provisional remedy" as defined in California Code of Civil Procedure Section 1281.8 shall be heard and determined by the court, and (ii) without limiting the generality of Section 2.3, the City shall be solely responsible to pay all fees and expenses of any referee appointed in such action or proceeding.

Section 8.22. No Advisory or Fiduciary Role. The City acknowledges and agrees that (a) the transactions contemplated by this Reimbursement Agreement, the Fee Letter and the Letter of Credit are arm's-length commercial transactions between the City and the Bank; (b) the Bank is acting solely as a principal (i.e., as a lender) in connection with the matters contemplated by and all communications under this Reimbursement Agreement, the Fee Letter and the Letter of Credit, and is not acting as the agent or fiduciary or Municipal Advisor (as defined in Section 15B of the Securities and Exchange Act of 1934, as amended, and the related final rules (the "Municipal Advisor Rules")) of the City and its advisors in connection with the matters contemplated by this Reimbursement Agreement, the Fee Letter and the Letter of Credit; (c) the Bank is relying on the bank exemption in the Municipal Advisor Rules; and (d) the Bank has financial and other interests that differ from those of the City.

[Remainder of page intentionally left blank; signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Reimbursement Agreement to be duly executed and delivered by their respective duly authorized officers as of the day and year first above written.

THE CITY OF SAN DIEGO

By: _____
Mary Lewis
Chief Financial Officer

ATTEST:

By: _____
Elizabeth S. Maland
City Clerk

APPROVED AS TO FORM:

JAN I. GOLDSMITH, City Attorney

By: _____
Brant C. Will
Deputy City Attorney

BANK OF AMERICA, N.A.

By: _____
Name: _____
Title: _____

[Signature Page to CP Reimbursement Agreement]

EXHIBIT A

IRREVOCABLE LETTER OF CREDIT

LETTER OF CREDIT NO. [Letter of Credit No.]

EXHIBIT A
[FORM OF LETTER OF CREDIT]
BANK OF AMERICA, N.A.
1 FLEET WAY, PA6-580-02-30
SCRANTON, PENNSYLVANIA 18507

IRREVOCABLE LETTER OF CREDIT NO. *****

January [●], 2017
U.S. \$[●],000,000
No. *****

U.S. Bank National Association
as Issuing and Paying Agent
[Address]
Attention: Corporate Trust Services

Ladies and Gentlemen:

We hereby establish, at the request and for the account of the City of San Diego (the “City”), in your favor, as Issuing and Paying Agent (the “*Issuing and Paying Agent*”) with respect to the Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Commercial Paper Notes, Series [●] (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Notes”) issued pursuant to the Fifth Supplemental Indenture dated as of January 1, 2017 amending and supplementing the Indenture dated as of January 1, 2009 (the “*Indenture*”), by and between the Public Facilities Financing Authority of the City of San Diego (the “*Authority*”) and U.S. Bank National Association, as trustee (the “*Trustee*”), and the Issuing and Paying Agent Agreement dated as of January 1, 2017 (the “*Issuing and Paying Agent Agreement*”), between the Authority and the Issuing and Paying Agent, our Irrevocable Letter of Credit No. ***** in the maximum available amount of [●] MILLION [●] HUNDRED [●] THOUSAND DOLLARS (\$[●]) as reduced, reinstated and decreased from time to time (the “*Stated Amount*”), which may be drawn upon from time to time in respect of the principal of and actual interest accrued or to accrue on the Eligible Notes (as hereinafter defined), effective on the date hereof and expiring at 5:00 p.m., Scranton, Pennsylvania time at our office in Scranton, Pennsylvania set forth below on January [●], 2019, except as extended pursuant to a notice from us to you in the form attached hereto as Annex F (the “*Letter of Credit Expiration Date*”) or terminated earlier as hereafter provided; *provided, however*, that if such date is not a Business Day, the Letter of Credit Expiration Date shall be the next preceding Business Day (as hereinafter defined). The Stated Amount is subject to reductions and reinstatements as provided herein. All drawings under this Letter of Credit will be paid with our own immediately available funds and will not be paid directly or indirectly from funds of any other person. This Letter of Credit is being issued pursuant to that certain Reimbursement Agreement, dated as of January [●], 2017 (as the same may at any time be amended or modified and in effect, the “*Reimbursement Agreement*”), between the City and Bank of America, N.A. (the “*Bank*”). “*Eligible Notes*” means Notes which are not registered in

the name of the City or the Authority or, to the best knowledge of the Issuing and Paying Agent, any nominee for or any Person who owns such Notes for the benefit of the City or the Authority. Capitalized terms used but not defined herein shall have the same meaning herein as in the Reimbursement Agreement.

We hereby irrevocably authorize you to draw on us in an aggregate amount not to exceed the Stated Amount of this Letter of Credit set forth above and in accordance with the terms and conditions and subject to the reductions and reinstatements in amount as hereinafter set forth, in one or more Drawings (as hereinafter defined) (subject to the provisions contained in the second following paragraph) payable as set forth herein on a Business Day, by presentation of your written and completed sight draft signed by you (in the form of Annex J hereto) accompanied by your written and completed certificate signed by you in the form of Annex A-1 (with respect to the payment at maturity of the principal of and interest at maturity on Notes) or (ii) Annex A-2 (with respect to the payment at maturity of the principal of outstanding Notes and the interest to accrue through the maturity thereof) and that are outstanding as of the date that you receive notice from us in the form of Annex I hereto (the "*Final Drawing Notice*"), attached hereto (any such certificate in the form of Annex A-1 or Annex A-2 being a "*Drawing*" and the Drawing following your presentation of Annex A-2, the "*Final Drawing*"), in an aggregate amount not exceeding the Stated Amount of this Letter of Credit.

"*Business Day*" means any day other than (i) a Saturday or Sunday or a day on which banking institutions are authorized or required by law or executive order to be closed in the State of California or in the State of New York for commercial banking purposes; (ii) a day on which the New York Stock Exchange is authorized or required by law or executive order to be closed; and (iii) a day upon which commercial banks are authorized or required by law or executive order to be closed in the cities and states in which demands for payment may be presented under this Letter of Credit.

Upon our honoring any Drawing, the Stated Amount and the amount available to be drawn hereunder by you pursuant to any subsequent Drawing shall be automatically reduced by an amount equal to the amount of such Drawing. Drawings shall be made on or prior to the date any sum is due on the Notes; *provided* that the Bank is not obligated to honor such Drawings until the respective stated maturity dates of such Notes. In connection therewith, the Stated Amount and the amounts from time to time available to be drawn by you hereunder by any Drawing (except in the case of a Drawing resulting from the delivery of a Final Drawing Notice) shall be reinstated when and to the extent, but only when and to the extent (i) you transfer to us on the date such Drawing is honored the proceeds of new Notes issued on such date or other funds furnished by or on behalf of the Authority to us for such purpose, in either case in an aggregate amount equal to the amount of such Drawing, or upon written notice from us (in the form of Annex K hereto) to you that we have been reimbursed by or on behalf of the Authority for any amount drawn hereunder by any Drawing and (ii) you have not received from us a Notice of No Issuance Notice in the form attached hereto as Annex G that has not been rescinded by your receipt of Rescission of Notice of No Issuance Notice in the form attached hereto as Annex H.

Upon your receipt of a Final Drawing Notice from us: (i) you are required to acknowledge and accept such Final Drawing Notice in accordance with such Final Drawing

Notice and return the same to the Bank, (ii) the Stated Amount shall be permanently reduced to the principal amount and/or face amount of Notes outstanding at the time of your receipt of such Final Drawing Notice (or, subject to paragraph 2 of the Final Drawing Notice, at the end of the Business Day on which you received the Final Drawing Notice), plus interest accrued or to accrue thereon to maturity (as you shall certify upon your receipt of such Final Drawing Notice), and (iii) the Stated Amount shall be further permanently reduced upon the Bank honoring the Final Drawing, and the Stated Amount shall no longer be reinstated following any Drawings.

The Stated Amount of this Letter of Credit shall also be automatically decreased from time to time on each Decrease Date specified in, and in the amounts set forth in, a notice from us to you in the form attached hereto as Annex E (each, a "*Decrease Notice*"). As of the applicable Decrease Date and upon such decrease, the new Stated Amount shall not be less than your certification in the applicable Decrease Notice that such amount is not less than the sum of the outstanding principal amount of all outstanding discount Notes on such Decrease Date.

Each Drawing shall be dated the date of its presentation, and shall be presented to Bank of America, N.A., 1 Fleet Way, PA6-580-02-30, Scranton, Pennsylvania 18507 as aforesaid, by telecopier (at telecopier number (800) 755-8743), Attention: Standby Letter of Credit Department or at any other number or numbers which may be designated by the Bank by written notice delivered to you, without further need of documentation, including the original of this Letter of Credit, it being understood that each Drawing so submitted is to be the sole operative instrument of drawing. You shall use your best efforts to give telephonic notice of a drawing to the Bank at (800) 370-7519 OPT 1 on the Business Day preceding the day of such Drawing (but such notice shall not be a condition to drawing hereunder and you shall have no liability for not doing so). Each Drawing so presented shall have all blanks appropriately filled in and shall be signed by a person who purports to be an authorized officer of the Issuing and Paying Agent and each of the aforesaid certificates shall be either in the form of a letter on the letterhead of the Issuing and Paying Agent or a communication by telecopy delivered or transmitted to the Bank. If we receive any Drawing at such office, in strict conformity with the terms and conditions of this Letter of Credit, not later than 12:00 noon, Scranton, Pennsylvania time on a Business Day prior to the termination hereof, we will honor the same by 3:00 p.m., Scranton, Pennsylvania time on the same day in accordance with your payment instructions. If we receive any Drawings at such office, all in strict conformity with the terms and conditions of the Letter of Credit, after 12:00 noon, Scranton, Pennsylvania time on a Business Day prior to the termination hereof, we will honor the same by 3:00 p.m., Scranton, Pennsylvania time on the next succeeding Business Day in accordance with your payment instructions.

Payment under this Letter of Credit shall be made by the Bank by wire transfer of immediately available funds to the Issuing and Paying Agent in accordance with the instructions specified by the Issuing and Paying Agent in the related Drawing. Such account may be changed only by presentation to the Bank of a letter in form satisfactory to the Bank specifying a different account with the Issuing and Paying Agent and executed by the Issuing and Paying Agent.

This Letter of Credit shall expire at 5:00 p.m., Scranton, Pennsylvania time, on the date (the earliest of such date to occur referred to herein as the "*Termination Date*") which is the earliest of (i) Letter of Credit Expiration Date, (ii) the later of the date on which we receive written notice from you in the form of Annex C attached hereto that a Commercial Papers Notes

Credit Support Instrument has been substituted for this Letter of Credit in accordance with the Issuing and Paying Agent Agreement or the effective date of any such Commercial Papers Notes Credit Support Instrument (after we honor any properly presented and conforming Drawing, if any, on such date), (iii) the date on which we receive written notice from you in the form of Annex D attached hereto that there are no longer any Notes Outstanding within the meaning of the Indenture and that you elect to terminate the Letter of Credit or (iv) the earlier of (A) the 15th calendar day (or if such date is not a Business Day, the immediately succeeding Business Day) after the date on which you receive the Final Drawing Notice (or if you receive the Final Drawing Notice after 10:00 a.m. Scranton, Pennsylvania time on a Business Day, the 15th calendar day (or if such date is not a Business Day, the immediately succeeding Business Day) after the day after your receipt of the Final Drawing Notice) and (B) the date on which the Final Drawing is honored hereunder.

This Letter of Credit is transferable to any transferee whom you have certified to us has succeeded you as Issuing and Paying Agent under the Issuing and Paying Agent Agreement, and may be successively transferred in its entirety. Only you or your successor as Issuing and Paying Agent may make Drawings under this Letter of Credit. Upon the payment to you or to your account of the amount demanded hereunder, the Bank shall be fully discharged of its obligation under this Letter of Credit with respect to such demand for payment and shall not thereafter be obligated to make any further payments under this Letter of Credit in respect of such demand for payment to you or any other person who may have made to you or makes to you a demand for payment of principal of or interest on any Note. By paying to you an amount demanded in accordance herewith, the Bank makes no representations as to the correctness of the amount demanded. Transfer of the available balance under this Letter of Credit to such transferee shall be effected by the presentation to us of this Letter of Credit accompanied by a Transfer Request in the form of Annex B attached hereto signed by the transferor and the transferee (each a "Transfer") together with the original Letter of Credit. Upon our receipt of your request, accompanied by a signature guarantee validating the signatures appearing thereon, we shall endorse the Letter of Credit and forward same to the new beneficiary (i.e. transferee). Transfers to designated foreign nationals and/or specially designated nationals are not permitted as such transfers are contrary to the U.S. Treasury Department or Foreign Assets Control Regulations. Upon the effective date of such transfer, as set forth in such Transfer, the transferee instead of the transferor shall without necessity of further action, be entitled to all the benefits of and rights under this Letter of Credit in the transferor's place; *provided that*, in such case, any certificates of the Issuing and Paying Agent to be provided hereunder shall be signed by one who states therein that he is a duly authorized officer or agent of the transferee.

In connection with the termination of this Letter of Credit, this Letter of Credit shall be returned to us and marked "cancelled". This Letter of Credit is intended to apply only to the payment of the principal amount of the Notes and interest accrued or to accrue thereon upon the maturity thereof.

This Letter of Credit sets forth in full our undertaking but not any of our rights (whether under applicable law or otherwise), and such undertaking but not any of our rights (whether under applicable law or otherwise) shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein (including, without limitation, the Notes), except only the Drawings referred to herein, the ISP98 (as

hereinafter defined) and the Uniform Commercial Code of the State of New York; and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except for such Drawings.

If a Drawing does not conform to the terms and conditions of the Letter of Credit, we will use commercially reasonable efforts to give telephonic notice to the Issuing and Paying Agent thereof within the time set forth above for honor of such demand for payment; such notice, if given, to be confirmed in writing to the Issuing and Paying Agent within one Business Day after such notice, and we shall return all documents to you.

Unless otherwise specified herein or as otherwise provided in writing by us, communications with respect to this Letter of Credit shall be in writing and shall be addressed to the Bank at Bank of America, N.A., 1 Fleet Way, PA6-580-02-30, Scranton, Pennsylvania 18507, Attn: Standby Letter of Credit Department, specifically referring to the number of this Letter of Credit. For telephone assistance, please contact the Standby Letter of Credit Department at (800) 370-7519 OPT 1 (or at any other number or numbers which may be designated by the Bank by written notice delivered to you, without further need of documentation), and have the Letter of Credit number available. Any communication to the Bank (other than Drawings) shall be in writing delivered to the Bank at the address set forth in this paragraph.

Communications with respect to this Letter of Credit shall be addressed to you at your address set forth on the cover page of this Letter of Credit, specifically referring to the number of this Letter of Credit, or as otherwise provided in writing by you to the Bank.

Except as expressly stated herein, this Letter of Credit is governed by, and construed in accordance with, the terms of the International Standby Practices 1998, International Chamber of Commerce Publication No. 590 (the "ISP98"). As to matters not governed by the ISP98, this Letter of Credit shall be governed by and construed in accordance with Article 5 of the Uniform Commercial Code of the State of New York, without regard to conflict of laws.

[SIGNATURE PAGE TO FOLLOW]

Very truly yours,

BANK OF AMERICA, N.A.

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX A-1

**TO
BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

**[FORM OF CERTIFICATE FOR DRAWING]
CERTIFICATE FOR DRAWING IN CONNECTION
WITH THE PAYMENT OF PRINCIPAL AND INTEREST**

Bank of America, N.A.
1 Fleet Way, PA6-580-02-30
Scranton, Pennsylvania 18507
Attn: Standby Letter of Credit Department

cc: Via Facsimile to (800) 755-8743

FOR THE URGENT ATTENTION OF STANDBY LETTER OF CREDIT DEPARTMENT

The undersigned, a duly authorized officer of the undersigned Issuing and Paying Agent (the "*Issuing and Paying Agent*"), hereby certifies to Bank of America, N.A. (the "*Bank*"), with reference to Irrevocable Letter of Credit No. ***** (the "*Letter of Credit*," the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The undersigned is the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and the Indenture and is acting as the agent for the holders of the Notes.

2. The undersigned is making a drawing under the Letter of Credit with respect to a payment of the principal of and accrued interest on maturing Notes which mature, and for which payment is due, on _____, 20__.

3. The amount of the Drawing is equal to \$_____. Such amounts were computed in compliance with the terms and conditions of the Notes, the Issuing and Paying Agent Agreement and the Indenture. The amount of the Drawing being drawn in respect of the payment of principal of and accrued interest on maturing Notes does not exceed the Stated Amount of the Letter of Credit. The amount demanded hereby does not include any amount in respect of the Notes registered in the name of the City or the Authority or, to the best knowledge of the Issuing and Paying Agent, any nominee for or any Person who owns such Notes for the benefit of the City or the Authority.

4. Each such Note was authenticated and delivered by us (or a predecessor Issuing and Paying Agent) pursuant to authority under the Indenture.

5. Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will deposit the same directly into the applicable Credit Enhanced Note Account maintained by the Issuing and Paying Agent pursuant to the Issuing and Paying Agent Agreement and shall apply the same directly to the payment when due of the principal amount of the Notes and the interest amount owing on account of the Notes pursuant to the Issuing and Paying Agent Agreement, (b) no portion of said amount shall be applied by the undersigned for any other purpose, (c) no portion of said amount shall be commingled with other funds held by the undersigned, except for other funds drawn under the Letter of Credit, and (d) when such Notes have been presented for payment and paid by us, the undersigned will cancel such matured Notes.

6. Payment by the Bank pursuant to this drawing shall be made to [_____, ABA Number _____, Account Number _____, Attention _____.]

7. The undersigned is the duly authorized officer of the Issuing and Paying Agent.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of _____ the _____ day of _____.

_____, as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX A-2

**TO
BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

**[FORM OF CERTIFICATE FOR FINAL DRAWING]
CERTIFICATE FOR FINAL DRAWING**

Bank of America, N.A.
1 Fleet Way, PA6-580-02-30
Scranton, Pennsylvania 18507
Attn: Standby Letter of Credit Department

cc: Via Facsimile to (800) 755-8743

FOR THE URGENT ATTENTION OF STANDBY LETTER OF CREDIT DEPARTMENT

The undersigned, a duly authorized officer of the undersigned Issuing and Paying Agent (the “*Issuing and Paying Agent*”), hereby certifies to Bank of America, N.A. (the “*Bank*”), with reference to Irrevocable Letter of Credit No. ***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The undersigned is the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and the Indenture and is acting as the agent for the holders of the Notes.
2. The Issuing and Paying Agent has received the Final Drawing Notice.
3. The undersigned is making a drawing under the Letter of Credit with respect to a payment of the principal of and interest to accrue through the maturity thereof.
4. The amount of the Drawing is equal to \$_____. Such amounts were computed in compliance with the terms and conditions of the Notes, the Issuing and Paying Agent Agreement and the Indenture. The amount of the Drawing being drawn in respect of the payment of principal of and accrued interest on maturing Notes does not exceed the Stated Amount of the Letter of Credit. The amount demanded hereby does not include any amount in respect of the Notes registered in the name of the City or the Authority or, to the best knowledge of the Issuing and Paying Agent, any nominee for or any Person who owns such Notes for the benefit of the City or the Authority.

5. Each such Note was authenticated and delivered by us (or a predecessor Issuing and Paying Agent) pursuant to authority under the Indenture.

6. Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will deposit the same directly into the applicable Credit Enhanced Note Account maintained by the Issuing and Paying Agent pursuant to the Issuing and Paying Agent Agreement and shall apply the same directly to the payment when due of the principal amount of the Notes and the interest amount owing on account of the Notes pursuant to the Issuing and Paying Agent Agreement, (b) no portion of said amount shall be applied by the undersigned for any other purpose, (c) no portion of said amount shall be commingled with other funds held by the undersigned, except for other funds drawn under the Letter of Credit, and (d) when such Notes have been presented for payment and paid by us, the undersigned will cancel such matured Notes.

7. This Certificate is being presented to the Bank on a date which is no later than the 14th calendar day after receipt by the Issuing and Paying Agent of the Final Drawing Notice.

8. Payment by the Bank pursuant to this drawing shall be made to [_____, ABA Number _____, Account Number _____, Attention _____.]

9. The undersigned is the duly authorized officer of the Issuing and Paying Agent.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of _____ the _____ day of _____.

_____, as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX B

TO

**BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

REQUEST FOR TRANSFER

Date: _____

Bank of America, N.A.
1 Fleet Way, PA6-580-02-30
Scranton, Pennsylvania 18507
Attn: Standby Letter of Credit Department

cc: Via Facsimile to (800) 755-8743

Re: Bank of America, N.A. Irrevocable Letter of Credit No. *****

We, the undersigned "Transferor", hereby irrevocably transfer all of our rights to draw under the above referenced Letter of Credit (the "*Letter of Credit*") in its entirety to:

NAME OF TRANSFEREE

(Print Name and complete address of the Transferee)

"Transferee"

ADDRESS OF TRANSFEREE

CITY, STATE/COUNTRY ZIP

We hereby certify the Transferee has succeeded us as Issuing and Paying Agent under the Indenture.

In accordance with the ISP98, Rule 6, regarding transfer of drawing rights, all rights of the undersigned Transferor in such Letter of Credit are transferred to the Transferee, who shall have the sole rights as beneficiary thereof, including sole rights relating to any amendments whether increases or extensions or other amendments and whether now existing or hereafter made. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the undersigned Transferor.

The original Letter of Credit, including amendments to this date, is attached and the undersigned Transferor requests that you endorse an acknowledgment of this transfer on the reverse thereof. The undersigned Transferor requests that you notify the Transferee of this Letter of Credit in such form and manner as you deem appropriate, and the terms and conditions of the Letter of Credit as transferred. The undersigned Transferor acknowledges that you incur no obligation hereunder and that the transfer shall not be effective until you have expressly consented to effect the transfer by notice to the Transferee.

Payment of transfer fee of U.S. \$[●] is for the account of the Authority, who agrees to pay you on demand any expense or cost you may incur in connection with the transfer. Receipt of such shall not constitute consent by you to effect the transfer.

Transferor represents and warrants to Transferring Bank that (i) our execution, delivery, and performance of this request to Transfer (a) are within our powers (b) have been duly authorized (c) constitute our legal, valid, binding and enforceable obligation (d) do not contravene any charter provision, by-law, resolution, contract, or other undertaking binding on or affecting us or any of our properties (e) do not require any notice, filing or other action to, with, or by any governmental authority (f) the enclosed Letter of Credit is original and complete, (g) there is no outstanding demand or request for payment or transfer under the Letter of Credit affecting the rights to be transferred, (h) the Transferee's name and address are correct and complete and the Transferee's use of the Letter of Credit as transferred and the transactions underlying the Letter of Credit and the requested Transfer do not violate any applicable United States or other law, rule or regulation.

Following the Bank's receipt of this request accompanied by the original Letter of Credit and the Transferor's signature guarantee validating the signatures appearing below, the Effective Date of the transfer shall be the date hereafter on which the Bank endorses the Letter of Credit and forwards the same to the Transferee as successor beneficiary.

The Effective Date shall be the date hereafter on which Transferring Bank effects the requested transfer by acknowledging this request and giving notice thereof to Transferee.

WE WAIVE ANY RIGHT TO TRIAL BY JURY THAT WE MAY HAVE IN ANY ACTION OR PROCEEDING RELATING TO OR ARISING OUT OF THIS TRANSFER.

(Signature Page Follows)

This Request is made subject to ISP98 and is subject to and shall be governed by the laws of the State of New York, without regard to principles of conflict of laws.

Sincerely yours,

(Print Name of Transferor)

(Transferor's Authorized Signature)

(Print Authorized Signers Name and Title)

(Telephone Number/Fax Number)

| |
|--|
| SIGNATURE GUARANTEED |
| Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has, been identified by us in compliance with USA PATRIOT Act procedures of our bank. |
| _____ (Print Name of Bank) |
| _____ (Address of Bank) |
| _____ (City, State, Zip Code) |
| _____ (Print Name and Title of Authorized Signer) |
| _____ (Authorized Signature) |

Acknowledged:

(Print Name of Transferee)

(Transferee's Authorized Signature)

(Print Authorized Signers Name and Title)

(Telephone Number/Fax Number)

| |
|--|
| SIGNATURE GUARANTEED |
| Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has, been identified by us in compliance with USA PATRIOT Act procedures of our bank. |
| _____ (Print Name of Bank) |
| _____ (Address of Bank) |
| _____ (City, State, Zip Code) |
| _____ (Print Name and Title of Authorized Signer) |
| _____ (Authorized Signature) |

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX C

TO

**BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

**[FORM OF CERTIFICATE RE: SUBSTITUTE COMMERCIAL PAPER NOTES
CREDIT SUPPORT INSTRUMENT]**

**CERTIFICATE RE: SUBSTITUTE COMMERCIAL PAPER NOTES CREDIT
SUPPORT INSTRUMENT**

Bank of America, N.A.
1 Fleet Way, PA6-580-02-30
Scranton, Pennsylvania 18507
Attn: Standby Letter of Credit Department

cc: Via Facsimile to (800) 755-8743

The undersigned, a duly authorized officer of the undersigned Issuing and Paying Agent (the "*Issuing and Paying Agent*"), hereby certifies to Bank of America, N.A. (the "*Bank*"), with reference to Irrevocable Letter of Credit No. ***** (the "*Letter of Credit*," the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The undersigned is the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and the Indenture for the holders of the Notes.
2. The conditions precedent to the acceptance of a substitute Commercial Paper Notes Credit Support Instrument set forth in the Issuing and Paying Agent Agreement have been satisfied.
3. A Commercial Paper Notes Credit Support Instrument in full and complete substitution for the Letter of Credit has been accepted by the Issuing and Paying Agent and is in effect.
4. There will be no further Drawings requested from the Bank under the Letter of Credit.

5. Upon receipt by the Bank of this Certificate the Letter of Credit shall terminate with respect to all outstanding Notes, and the Letter of Credit is returned to you herewith for cancellation.

6. No payment is demanded of you in connection with this notice.

7. The undersigned is the duly authorized officer of the Issuing and Paying Agent.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of _____ the _____ day of _____.

_____, as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX D

TO

**BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

**[FORM OF CERTIFICATE RE: NO OUTSTANDING NOTES]
CERTIFICATE RE: NO OUTSTANDING NOTES**

Bank of America, N.A.
1 Fleet Way, PA6-580-02-30
Scranton, Pennsylvania 18507
Attn: Standby Letter of Credit Department

cc: Via Facsimile to (800) 755-8743

The undersigned, a duly authorized officer of the undersigned Issuing and Paying Agent (the "*Issuing and Paying Agent*"), hereby certifies to Bank of America, N.A. (the "*Bank*"), with reference to Irrevocable Letter of Credit No. ***** (the "*Letter of Credit*," the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The undersigned is the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and the Indenture for the holders of the Notes.
2. No Notes (other than Notes with respect to which another Commercial Paper Notes Credit Support Instrument is in effect) remain outstanding under the Issuing and Paying Agent Agreement nor does the Authority intend to issue any additional Notes under the Issuing and Paying Agent Agreement.
3. There will be no further Drawings requested from the Bank under the Letter of Credit, and we hereby elect to terminate the Letter of Credit and return such Letter of Credit to you herewith for cancellation.
4. No payment is demanded of you in connection with this notice.
5. The undersigned is the duly authorized officer of the Issuing and Paying Agent.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of the _____ day of _____.

_____, as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX E

TO

**BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *****
AMENDMENT NO. [_____]**

**[FORM OF CERTIFICATE RE: DECREASE IN STATED AMOUNT]
CERTIFICATE RE: DECREASE IN STATED AMOUNT**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of America, N.A. (the “*Bank*”), hereby certifies to _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. ***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, the Stated Amount of the Letter of Credit shall be decreased in the amount of \$_____, effective as of _____ (the “*Decrease Date*”). The new Stated Amount of the Letter of Credit is \$_____, which by your acknowledgment hereto you certify that such amount is not less than the sum of the outstanding principal amount of the Notes on such Decrease Date plus interest to accrue thereon to the maturity date thereof. You shall attach this Notice of Decrease in Stated Amount to the Letter of Credit and treat this Notice of Decrease in Stated Amount as an amendment to the Letter of Credit. All other terms and conditions of the Letter of Credit remain unchanged.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate as of the _____ day of _____.

BANK OF AMERICA, N.A., as the
Bank

By _____
Name: _____
Title: _____

Acknowledged as of _____, _____
by _____,
as Issuing and Paying Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX F

TO

**BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *****
AMENDMENT NO. []**

**[FORM OF NOTICE OF EXTENSION OF LETTER OF CREDIT EXPIRATION DATE]
NOTICE OF EXTENSION OF LETTER OF CREDIT EXPIRATION DATE**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of America, N.A. (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. ***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The Letter of Credit Expiration Date has been extended to _____.
2. This Notice of Extension should be attached to the Letter of Credit and be treated as an amendment thereof.
3. All other terms and conditions of the Letter of Credit remain unchanged.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of Extension as of the day of _____.

BANK OF AMERICA, N.A.

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX G

TO

**BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

**[FORM OF NOTICE OF NO ISSUANCE]
NOTICE OF NO ISSUANCE**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of America, N.A. (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. ***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. In accordance with the terms of the Reimbursement Agreement, an Event of Default (as defined in the Reimbursement Agreement) has occurred and is continuing.

2. Subject to the following sentence, you shall cease authenticating Notes, as provided in Section 3(b) of the Issuing and Paying Agent Agreement, unless and until you receive from us a Rescission of Notice of No Issuance in the form of Annex H to the Letter of Credit. If you receive this Notice of No Issuance after 10:00 a.m., Scranton, Pennsylvania time, on a Business Day you shall cease authenticating Notes on the next Business Day.

3. This Notice of No Issuance shall not affect our obligation to honor demands for payment under the Letter of Credit with respect to Notes authenticated prior to your receipt of this Notice of No Issuance and outstanding on the date hereof (or, subject to paragraph 2 above, on the same Business Day that you receive this Notice of No Issuance), and you shall continue to have the right to draw under the Letter of Credit to pay the principal of and accrued interest on maturing Notes authenticated prior to your receipt of this Notice of No Issuance (or, subject to paragraph 2 above, authenticated on the same Business Day that you receive this Notice of No Issuance).

4. Upon receipt by you of this Notice of No Issuance you are notified (i) that the Stated Amount available to be drawn under the Letter of Credit will not be reinstated in accordance with the Letter of Credit, (ii) that the Stated Amount of the Letter of Credit

shall be permanently reduced to the principal amount and interest accrued or to accrue thereon to maturity of Notes authenticated prior to your receipt of this Notice of No Issuance and outstanding on the date hereof (or, subject to paragraph 2 above, on the same Business Day that you receive this Notice of No Issuance) (“*Outstanding Amount*”), and (iii) that the Stated Amount of the Letter of Credit shall be further permanently reduced following the Bank honoring the related Drawing upon the maturity of any such outstanding Notes, and shall be further permanently reduced from time to time as otherwise may be provided in the Letter of Credit.

You are hereby requested under the terms of the Letter of Credit to acknowledge receipt of this Notice of No Issuance, make certain undertakings, and certify the Outstanding Amount in the manner set forth below.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of No Issuance as of the _____ day of _____.

BANK OF AMERICA, N.A.

By _____
Name: _____
Title: _____

ACCEPTED AND ACKNOWLEDGED BY:

_____, as Issuing and Paying Agent, hereby accepts this Notice of No Issuance on _____, 20__ (the “*Acceptance Date*”) and acknowledges that it has ceased issuing Notes as of the Acceptance Date. _____, as Issuing and Paying Agent, hereby certifies that the Outstanding Amount (which is the principal amount of Notes authenticated prior to our receipt of this Notice of No Issuance and outstanding on the date hereof plus interest thereon to maturity) equals \$_____, and therefore the Stated Amount of the Letter of Credit is hereby permanently reduced to such amount as of the Acceptance Date.

_____, AS ISSUING AND PAYING AGENT

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX H

TO

**BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

**[FORM OF RESCISSION OF NOTICE OF NO ISSUANCE]
RESCISSION OF NOTICE OF NO ISSUANCE**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of America, N.A. (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. ***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. The Bank has previously delivered to you a Notice of No Issuance dated _____, 20__ (the “*Subject Notice of No Issuance*”).
2. The Bank rescinds the Subject Notice of No Issuance as of the date set forth above the Bank’s signature below (the “*Effective Date*”).
3. You shall may recommence authenticating Notes as of the Effective Date in accordance with Section 3(b) of the Issuing and Paying Agent Agreement.
4. We advise you that the Stated Amount available to be drawn under the Letter of Credit has been reinstated in accordance with the Letter of Credit.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Rescission of Notice of No Issuance as of the _____ day of _____.

BANK OF AMERICA, N.A.

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX I

TO

**BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

**[FORM OF FINAL DRAWING NOTICE]
FINAL DRAWING NOTICE**

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of America, N.A. (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. ***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. In accordance with the terms of the Reimbursement Agreement, an Event of Default (as defined in the Reimbursement Agreement) has occurred and is continuing.

2. Subject to the following sentence, you shall cease authenticating Notes, as provided in Section 3(b) of the Issuing and Paying Agent Agreement. If you receive this notice after 10:00 a.m. Scranton, Pennsylvania time on a Business Day, you shall cease authenticating Notes on the next Business Day.

3. The Bank hereby notifies the Issuing and Paying Agent that (i) effective upon receipt of this Final Drawing Notice, the Stated Amount available to be drawn under the Letter of Credit will not be reinstated in accordance with the Letter of Credit, (ii) the Issuing and Paying Agent is instructed to make the final Drawing under the Letter of Credit to provide for the payment of the principal of and interest on Notes issued in accordance with the Issuing and Paying Agent Agreement which are outstanding and are maturing or are hereafter to mature, and (iii) the Termination Date of the Letter of Credit will occur and the Letter of Credit will expire on the earlier of (a) the date which is the 15th calendar day after the date of receipt by the Issuing and Paying Agent of this Final Drawing Notice (or if the Issuing and Paying Agent receives this Final Drawing Notice after 10:00 a.m. Scranton, Pennsylvania time on a Business Day, the 15th calendar after the day after receipt by the Issuing and Paying Agent of this Final Drawing Notice), and (b) the date on which the Drawing resulting from the delivery of this notice is honored by us. The Final Drawing under the Letter of Credit shall not provide for the payment of

Notes that are issued after receipt by the Issuing and Paying Agent of this Final Drawing Notice or a Notice of No Issuance Notice (or, subject to paragraph 2 above and paragraph 2 of any Notice of No Issuance Notice, Notes that are issued on or after the Business Day after receipt by the Issuing and Payment Agent of this Final Drawing Notice or a Notice of No Issuance).

You are hereby requested under the terms of the Letter of Credit to acknowledge receipt of this Final Drawing Notice and make certain undertakings in the manner set forth below.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Final Drawing Notice as of the _____ day of _____.

BANK OF AMERICA, N.A.

By _____
Name: _____
Title: _____

ACCEPTED AND ACKNOWLEDGED BY:

_____, as Issuing and Paying Agent, hereby accepts this Final Drawing Notice on _____, 20__ (the "Acceptance Date") and acknowledges that it has ceased issuing Notes as of the Acceptance Date.

_____, AS ISSUING AND PAYING AGENT

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX J

FORM OF SIGHT DRAFT

**BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

Bank of America, N.A.
1 Fleet Way, PA6-580-02-30
Scranton, Pennsylvania 18507
Attention: Standby Letter of Credit Department

This sight draft is presented to you on _____, ____ for the amount of
\$_____ for the purposes set forth in the accompanying Certificate for Drawing in
connection with the payment of principal and interest.

_____, as Issuing and Paying
Agent

By _____
Name: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO,
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES, SERIES [●]
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

ANNEX K

**TO
BANK OF AMERICA, N.A.
IRREVOCABLE LETTER OF CREDIT NO. *******

[FORM OF NOTICE OF REINSTATEMENT]

_____,
as Issuing and Paying Agent
[Address of Issuing and Paying Agent]
Attention: Corporate Trust Services

The undersigned, duly authorized signatory of Bank of America, N.A. (the “*Bank*”), hereby notifies _____ (the “*Issuing and Paying Agent*”), with reference to Irrevocable Letter of Credit No. ***** (the “*Letter of Credit*,” the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Issuing and Paying Agent, as follows:

1. On _____, 20____, the Bank honored a _____ Drawing under the Letter of Credit in the amount of \$_____.
2. The Bank has been reimbursed by or on behalf of the Authority in the amount of \$_____ for such Drawing.
3. The Stated Amount available to be drawn by you under the Letter of Credit is hereby increased in the amount of \$_____ on the date hereof.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of Reinstatement as of the _____ day of _____.

BANK OF AMERICA, N.A.

By _____
Name: _____
Title: _____

EXHIBIT B

FORM OF BANK NOTE

City of San Diego
\$175,000,000

Subordinated Water Revenue Commercial Paper Notes, Series B
(Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of
the Water Utility Fund)

January [], 2017

For Value Received, the undersigned, THE CITY OF SAN DIEGO (the “City”), hereby promises to pay to the order of BANK OF AMERICA, N.A. (the “Bank”), in the manner and on the dates provided in the Reimbursement Agreement, dated as of January 1, 2017 (the “Reimbursement Agreement”), by and between the City of San Diego, a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California (the “City”) and the Bank, in lawful money of the United States of America and in immediately available funds in an amount equal to the aggregate outstanding principal amount of the Unreimbursed Amounts and Bank Loans from time to time owing to the Bank under the Reimbursement Agreement. Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Reimbursement Agreement.

The City further promises to pay interest from the date hereof on the outstanding principal amount hereof and unpaid interest hereon from time to time at the rates and times and in all cases in accordance with the terms of the Reimbursement Agreement. The Bank may endorse its books and records relating to this Bank Note with appropriate notations evidencing the amounts drawn under the Letter of Credit and payments of principal hereunder as contemplated by the Reimbursement Agreement.

This Bank Note is issued pursuant to, is entitled to the benefits of, and is subject to, the provisions of the Reimbursement Agreement, as further supplemented and amended in accordance with the terms thereof and the Reimbursement Agreement. Voluntary prepayments may be made hereon, certain prepayments are required to be made hereon, and this Bank Note may be declared due prior to the expressed maturity hereof, all on the terms and in the manner provided for in the Reimbursement Agreement.

The parties hereto, including the undersigned maker and all guarantors, endorsers and pledgors that may exist at any time with respect hereto, hereby waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Bank Note and assent to the extensions of the time of payment or forbearance or other indulgence without notice.

The obligations of the City under this Bank Note constitute “Subordinated Credit Provider Reimbursement Obligations” as defined in the Agreement. This Bank Note is secured by and payable from Net System Revenues on a basis on a parity with the Subordinated Obligations.

This Bank Note and the obligations of the City hereunder shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the City has caused this Bank Note to be signed in its corporate name as an instrument by its duly authorized officer on the date and in the year first above written.

THE CITY OF SAN DIEGO

By: _____
Name:
Title:

ATTEST:

By: _____
Elizabeth S. Maland
City Clerk

APPROVED AS TO FORM:

JAN I. GOLDSMITH, City Attorney

By: _____
Brant C. Will
Deputy City Attorney

EXHIBIT C

FORM OF AUTHORITY LETTER OF REPRESENTATIONS

City of San Diego
\$175,000,000

Subordinated Water Revenue Commercial Paper Notes, Series B
(Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of
the Water Utility Fund)

January [], 2017

City of San Diego

[]

San Diego, California []

Bank of America, N.A.

[]

[]

Ladies and Gentlemen:

The City of San Diego, a municipal corporation and a charter city duly organized and existing under its Charter and the Constitution of the State of California (the “City”) desires to finance the acquisition, construction, installation and improvements to its water system (the “Water System”). In order to effect the acquisition, construction, installation and improvements to the Water System, the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) has agreed from time to time to sell certain improvements and additions (comprised of various components, each, a “Component”) to the Water System and the City has agreed from time to time to purchase certain Components as specified in certain supplements to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as amended from time to time (collectively and as further supplemented from time to time, the “Agreement”), each by and between the City and the Corporation.

The Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers authority duly organizing and existing under the laws of the State of California (the “Authority”) has agreed to provide assistance to the City by the financing of additional components of the acquisition, construction, installation and improvements to the Water System including the reimbursement of the City for eligible expenditures incurred to pay for such additional components of the acquisition, construction, installation and improvements to the Water System by the issuance of its Subordinated Water Revenue Commercial Paper Notes, Series B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Commercial Paper Notes”) which may be issued from time to time in an aggregate principal amount of up to \$175,000,000 for purposes as permitted by the Indenture hereinafter mentioned including [].

The Commercial Paper Notes will be issued from time to time pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 et seq. of the

Government Code of the State, as amended (the “Act”), and the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplemental Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), amending that certain Indenture, dated as of January 1, 2009, as supplemented and amended from time to time.

In order to support the payment of the Commercial Paper Notes as the same shall become due and payable pursuant to the provisions of the Indenture, the City has requested that the Bank issue in favor of the Issuing and Paying Agent (as hereinafter defined), for the account of the City and for the benefit of the holders from time to time of the Commercial Paper Notes, an irrevocable transferable letter of credit in the initial stated amount of \$[Stated Amount] (as completed, executed and issued, the “Letter of Credit”).

In order to induce the Bank to issue the Letter of Credit and to make Bank Loans under the Reimbursement Agreement, dated as of January 1, 2017 (the “Reimbursement Agreement”), by and between the City and Bank of America, N.A., the City has agreed to reimburse the Bank for all amounts advanced by it under the Letter of Credit and to pay interest on such amounts as well as certain costs, fees and expenses, and to request the Authority to deliver this Letter of Representations to the Bank, all as provided in the Reimbursement Agreement. For purposes of this Letter of Representations, capitalized terms used herein which are not defined herein shall have the meanings set forth in the Reimbursement Agreement.

To induce the Bank to issue the Letter of Credit and to make Bank Loans under the Reimbursement Agreement, the Authority hereby represents, warrants and agrees with the Bank as follows as of the date hereof and as a condition to the making of a Bank Loan in payment of an Unreimbursed Amount on the Liquidity Period End Date therefor:

(a) The Authority is a joint powers agency organized and existing under the provisions of the Constitution of the State of California. The Authority has all requisite power and authority to enter into and perform its obligations under the Commercial Paper Documents to which it is a party.

(b) The execution, delivery and performance of the Commercial Paper Documents by the Authority are within the Authority’s powers and have been duly authorized by all necessary action by the Authority. The execution, delivery and performance of the Commercial Paper Documents by the Authority will not (i) violate the joint powers agreement of the Authority or any other law, rule, regulation, order, writ, judgment, injunction, decree, determination or award, (ii) require any consent or approval of any Person (other than those that have been obtained), or (iii) conflict with, result in a breach of or constitute a default under any indenture, instrument or agreement to which the Authority is a party or is subject, or by which the Authority or its property, is bound. The Authority is not in violation of or default under any such Legal Requirement, and no condition exists that would, with the giving of notice or lapse of time, or both, constitute such a violation or default.

(c) The Commercial Paper Documents to which the Authority is a party have each been duly executed by the Authority and are legally valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms, except as

enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws affecting creditors' rights generally and by general principles of equity.

(d) Except as disclosed in the Offering Memorandum, there is no action, suit, investigation, proceeding or arbitration, at law or in equity or before or by any foreign or domestic court or other Governmental Authority (a "Legal Action") pending or, to the knowledge of the Authority, threatened against or affecting the Authority which could reasonably be expected to result in a Material Adverse Effect. Except as disclosed in the Offering Memorandum, there is no Legal Action pending or, to the knowledge of the Authority, threatened against or affecting the Authority questioning the validity or the enforceability of any Commercial Paper Documents.

(e) The Authority is in compliance in all material respects with all applicable Legal Requirements, except in such instances in which (i) such Legal Requirement is being contested in good faith by appropriate proceedings diligently conducted or (ii) the failure to comply therewith would not have a Material Adverse Effect.

(f) The information contained in the Offering Memorandum is correct in all material respects and does not contain an 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; provided, that no representation is made with respect to information included in the Offering Memorandum concerning (i) the Bank, furnished in writing by the Bank expressly for inclusion therein, (ii) the Dealer, furnished in writing by the Dealer expressly for inclusion therein, or (iii) The Depository Trust Company, furnished in writing by The Depository Trust Company expressly for inclusion therein.

(g) No Event of Default or "event of default" presently exists under any of the Commercial Paper Documents; nor has the Authority or any other party thereto waived or deferred performance of any material obligation under any Commercial Paper Document.

(h) The execution, delivery and performance by the Authority of the Commercial Paper Documents to which it is a party do not and will not require registration with, or the consent or approval of, or any other action by, any federal, State or other governmental authority or regulatory body other than those which have been made or given and are in full force and effect (except for any federal securities laws or Blue Sky regulations, as to which no representation is given).

(i) Neither the Authority nor any member of the Authority (a) is currently the subject of any Sanctions or is in violation of any Anti-Corruption Laws, (b) is located, organized or residing in any Designated Jurisdiction, or (c) is or has been (within the previous five (5) years) engaged in any transaction with any Person who is now or was then the subject of Sanctions or who is located, organized or residing in any Designated Jurisdiction.

Very truly yours,

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

By: _____
[Sherri S. Lightner]
Chair

ATTEST:

By: _____
Elizabeth S. Maland
Secretary

APPROVED AS TO FORM:

GENERAL COUNSEL TO THE AUTHORITY

By: _____
Brant C. Will
Deputy General Counsel

EXHIBIT D

FORM OF CORPORATION LETTER OF REPRESENTATIONS

City of San Diego
\$175,000,000

Subordinated Water Revenue Commercial Paper Notes, Series B
(Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of
the Water Utility Fund)

January [], 2017

City of San Diego

[]

San Diego, California []

Bank of America, N.A.

[]

[]

Ladies and Gentlemen:

The City of San Diego, a municipal corporation and a charter city duly organized and existing under its Charter and the Constitution of the State of California (the “City”) desires to finance the acquisition, construction, installation and improvements to its water system (the “Water System”). In order to effect the acquisition, construction, installation and improvements to the Water System, the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) has agreed from time to time to sell certain improvements and additions (comprised of various components, each, a “Component”) to the Water System and the City has agreed from time to time to purchase certain Components as specified in certain supplements to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as amended from time to time (collectively and as further supplemented from time to time, the “Agreement”), each by and between the City and the Corporation.

The Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers authority duly organizing and existing under the laws of the State of California (the “Authority”) has agreed to provide assistance to the City by the financing of additional components of the acquisition, construction, installation and improvements to the Water System including the reimbursement of the City for eligible expenditures incurred to pay for such additional components of the acquisition, construction, installation and improvements to the Water System by the issuance of its Subordinated Water Revenue Commercial Paper Notes, Series B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “Commercial Paper Notes”) which may be issued from time to time in an aggregate principal amount of up to \$175,000,000 for purposes as permitted by the Indenture hereinafter mentioned including [].

The Commercial Paper Notes will be issued from time to time pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 et seq. of the

Government Code of the State, as amended (the “Act”), and the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplemental Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), amending that certain Indenture, dated as of January 1, 2009, as supplemented and amended from time to time.

In order to support the payment of the Commercial Paper Notes as the same shall become due and payable pursuant to the provisions of the Indenture, the City has requested that the Bank issue in favor of the Issuing and Paying Agent (as hereinafter defined), for the account of the City and for the benefit of the holders from time to time of the Commercial Paper Notes, an irrevocable transferable letter of credit in the initial stated amount of \$[Stated Amount] (as completed, executed and issued, the “Letter of Credit”).

In order to induce the Bank to issue the Letter of Credit and to make Bank Loans under the Reimbursement Agreement, dated as of January 1, 2017 (the “Reimbursement Agreement”), by and between the City and Bank of America, N.A., the City has agreed to reimburse the Bank for all amounts advanced by it under the Letter of Credit and to pay interest on such amounts as well as certain costs, fees and expenses, and to request the Corporation to deliver this Letter of Representations to the Bank, all as provided in the Reimbursement Agreement. For purposes of this Letter of Representations, capitalized terms used herein which are not defined herein shall have the meanings set forth in the Reimbursement Agreement.

To induce the Bank to issue the Letter of Credit and to make Bank Loans under the Reimbursement Agreement, the Corporation hereby represents, warrants and agrees with the Bank as follows as of the date hereof and as a condition to the making of a Bank Loan in payment of an Unreimbursed Amount on the Liquidity Period End Date therefor:

(a) The Corporation is a non-profit public benefit corporation duly organized and existing under its articles of incorporation and the provisions of the Constitution of the State of California. The Corporation has all requisite power and authority to enter into and perform its obligations under the Commercial Paper Documents to which it is a party.

(b) The execution, delivery and performance of the Agreement and the Assignment Agreement by the Corporation are within the Corporation’s powers and have been duly authorized by all necessary action by the Corporation. The execution, delivery and performance of Agreement and the Assignment Agreement by the Corporation will not (i) violate the articles of incorporation and bylaws of the Corporation or any other law, rule, regulation, order, writ, judgment, injunction, decree, determination or award, (ii) require any consent or approval of any Person (other than those that have been obtained), or (iii) conflict with, result in a breach of or constitute a default under any indenture, instrument or agreement to which the Corporation is a party or is subject, or by which the Corporation or its property, is bound. The Corporation is not in violation of or default under any such Legal Requirement, and no condition exists that would, with the giving of notice or lapse of time, or both, constitute such a violation or default.

(c) The Agreement and the Assignment Agreement have each been duly executed by the Corporation and are legally valid and binding obligations of the Corporation, enforceable against the Corporation in accordance with their respective terms, except as enforceability may

be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws affecting creditors' rights generally and by general principles of equity.

(d) Except as disclosed in the Offering Memorandum, there is no action, suit, investigation, proceeding or arbitration, at law or in equity or before or by any foreign or domestic court or other Governmental Authority (a "Legal Action") pending or, to the knowledge of the Corporation, threatened against or affecting the Corporation which could reasonably be expected to result in a Material Adverse Effect. Except as disclosed in the Offering Memorandum, there is no Legal Action pending or, to the knowledge of the Corporation, threatened against or affecting the Corporation questioning the validity or the enforceability of any Commercial Paper Documents.

(e) The Corporation is in compliance in all material respects with all applicable Legal Requirements, except in such instances in which (i) such Legal Requirement is being contested in good faith by appropriate proceedings diligently conducted or (ii) the failure to comply therewith would not have a Material Adverse Effect.

(f) No Event of Default or "event of default" presently exists under the Agreement or the Assignment Agreement; nor has the Corporation or any other party thereto waived or deferred performance of any material obligation under the Agreement or the Assignment Agreement.

(g) The execution, delivery and performance by the Corporation of the Agreement and the Assignment Agreement do not and will not require registration with, or the consent or approval of, or any other action by, any federal, State or other governmental authority or regulatory body other than those which have been made or given and are in full force and effect (except for any federal securities laws or Blue Sky regulations, as to which no representation is given).

(h) The Corporation (a) is not currently the subject of any Sanctions or in violation of any Anti-Corruption Laws, (b) is not located, organized or residing in any Designated Jurisdiction, or (c) is not nor has been (within the previous five (5) years) engaged in any transaction with any Person who is now or was then the subject of Sanctions or who is located, organized or residing in any Designated Jurisdiction.

Very truly yours,

SAN DIEGO FACILITIES AND EQUIPMENT
LEASING CORPORATION

By: _____
Kevin L. Faulconer
President

EXHIBIT E
LITIGATION

FEE AGREEMENT
Dated [●], 2017

Reference is hereby made to (i) that certain Reimbursement Agreement dated as of [●], 2017 (as amended, supplemented or otherwise modified from time to time, the “*Agreement*”), between Bank of America, N.A. (the “*Bank*”) and the City of San Diego (the “*City*”), relating to the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes, Series B (the “*Notes*”), and (ii) that certain Irrevocable Letter of Credit dated [●], 2017, issued pursuant to the Agreement, supporting the Notes. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

The purpose of this Fee Agreement is to set forth the agreement between the Bank and the City with respect to the Letter of Credit Fees (as defined below) and certain other fees payable to the Bank.

ARTICLE I. FEES.

Section 1.1. Letter of Credit Fees. The City hereby agrees to pay to the Bank quarterly in arrears on the first Business Day of each January, April, July and October occurring prior to the Termination Date and on the Termination Date an amount equal to the rate per annum corresponding to the level below associated with the applicable Rating (as defined below), as specified below (the “*Letter of Credit Fee Rate*”), on the daily average Stated Amount of the Letter of Credit and on the basis of a 360 day year and the actual number of days elapsed (the “*Letter of Credit Fee*”) during each related period:

| LEVEL | MOODY’S RATING | FITCH RATING | LETTER OF CREDIT FEE RATE |
|---------|----------------|---------------|---------------------------|
| Level 1 | Aa3 or better | AA- or better | 0.31% |
| Level 2 | A1 | A+ | 0.31% |
| Level 3 | A2 | A | 0.46% |
| Level 4 | A3 | A- | 0.61% |
| Level 5 | Baa1 | BBB+ | 0.76% |
| Level 6 | Baa2 | BBB | 0.91% |
| Level 7 | Baa3 | BBB- | 1.06% |
| Level 8 | Below Baa3 | Below BBB- | 2.56% |

The term “*Rating*” as used above shall have the meaning given to the term “Subordinated Obligation Rating” set forth in the Agreement. If Ratings are in effect from Fitch and Moody’s and the Ratings established by Fitch and Moody’s fall within different levels, the level corresponding to the lower of the two levels shall apply (it being understood that “*Level 1*” is the “highest” level and “*Level 8*” is the “lowest” level). Any change in the Letter of Credit Fee Rate resulting from a change in a Rating shall be and become effective as of and on the date of the announcement of the change in such Rating. References to ratings above are references to

rating categories as presently determined by the Rating Agencies and in the event of adoption of any new or changed rating system by any such Rating Agency, including, without limitation, any recalibration or realignment of the long-term debt rating of any Subordinated Obligations in connection with the adoption of a “global” rating scale, each of the Ratings from the Rating Agency in question referred to above shall be deemed to refer to the rating category under the new rating system which most closely approximates the applicable rating category as currently in effect. The City acknowledges, and the Bank agrees, that on the Closing Date, the Letter of Credit Fee Rate is that specified above for “Level 1.” Upon the occurrence and during the continuance of an Event of Default (other than a downgrade of the rating on Subordinated Obligations below “Baa3” or its equivalent by Moody’s or below “BBB-” (or its equivalent) by Fitch), the Letter of Credit Fee Rate shall be increased by an additional one and one half percent (1.50%) per annum. If any Letter of Credit Fee is not paid when due, interest on such Letter of Credit Fee shall accrue from the date payment is due until payment in full at the Default Rate.

Section 1.2. Drawing Fee. On the date of each Drawing, the City hereby agrees to pay a non-refundable drawing fee of \$250 to the Bank for each Drawing under the Letter of Credit; *provided, however,* that the City shall not be required to pay more than \$10,000 for Drawing fees in any calendar year.

Section 1.3. Amendment and Transfer Fee. The City agrees to pay, or cause to be paid, to the Bank, on the date an amendment to the Letter of Credit, the Agreement, this Fee Agreement or the Bank Note, the transfer of the Letter of Credit to a successor beneficiary, or the date any standard waiver or consent is sought, a non-refundable fee equal to \$2,500 plus, in each case, the reasonable fees and expenses of counsel to the Bank; *provided, however,* in the event the Letter of Credit is being extended by the Bank and no other amendment is, or amendments are, being made, no amendment fee shall be payable to the Bank but the City shall pay the reasonable fees and expenses of counsel to the Bank incurred in connection with such extension.

Section 1.4. Termination Fee and Reduction Fee.

(a) Pursuant to Section 2.9 of the Agreement, the City hereby agrees to pay to the Bank a termination fee (the “*Termination Fee*”) if the Letter of Credit is terminated or replaced prior to the first anniversary of the Closing Date (the “*First Anniversary Date*”) in an amount equal to the product of (x) the Letter of Credit Fee Rate in effect on the date of termination, (y) the Stated Amount on the date of termination and (z) a fraction, the numerator of which is equal to the number of days from and including the date of termination to and including the First Anniversary Date and the denominator of which is 360, unless (I) the rating assigned to the Bank’s senior unsecured short-term obligations is withdrawn, suspended or reduced below “P-1” (or its equivalent) by Moody’s, “A-1” (or its equivalent) by S&P or “F1” (or its equivalent) by Fitch, (II) the Bank submits to the City a request for payment of amounts payable pursuant to Section 2.12 of the Agreement, or (III) upon the refinancing of the Notes with long-term bonds (A) that do not require credit or liquidity support or (B) other than long-term bonds that are purchased by another bank or institutional buyer pursuant to a direct purchase or bank loan transaction, in which case (in the case of any of clause (I), (II) or (III)), no Termination Fee shall be payable. The Termination Fee, all accrued Letter of Credit Fees, all Unreimbursed

Amounts, all Bank Loans and all other Payment Obligations, all accrued interest thereon and all other amounts payable to the Bank under the Agreement shall be payable on the effective date of such termination.

(b) Notwithstanding the foregoing and anything set forth herein to the contrary, the City agrees not to permanently reduce the Stated Amount prior to the First Anniversary Date, without the payment by City to the Bank of a reduction fee (the "*Reduction Fee*") in connection with each and every permanent reduction of the Stated Amount in an amount equal to the product of (A) the Letter of Credit Fee Rate in effect on the date of such reduction, (B) the difference between the Stated Amount prior to such reduction and the Stated Amount after such reduction, and (C) a fraction, the numerator of which is equal to the number of days from and including the date of such reduction to and including the Stated Expiration Date, and the denominator of which is 360, unless (I) the rating assigned to the Bank's senior unsecured short-term obligations is withdrawn, suspended or reduced below "*P-1*" (or its equivalent) by Moody's, "*A-1*" (or its equivalent) by S&P or "*F1*" (or its equivalent) by Fitch, (II) the Bank submits to the City a request for payment of amounts payable pursuant to Section 2.12 of the Agreement, or (III) upon the refinancing of all or a portion of the Notes with long-term bonds (A) that do not require credit or liquidity support or (B) other than long-term bonds that are purchased by another bank or institutional buyer pursuant to a direct purchase or bank loan transaction, in which case (in the case of any of clause (I), (II) or (III)), *provided further* that in no event shall the Termination Fee and the Reduction Fee both be payable with respect to the same termination and/or reduction event. The Reduction Fee, all accrued Letter of Credit Fees, all Unreimbursed Amounts, all Bank Loans and all other Payment Obligations, all accrued interest thereon and all other amounts payable to the Bank under the Agreement shall be payable on the effective date of such reduction.

Section 1.5. Counsel Fees and Expenses. Promptly (and in any event no later than thirty (30) days) following submission of an invoice therefor, the City shall reimburse the Bank for the fees and expenses of counsel to the Bank, provided that such fees shall not exceed \$32,500.

Section 1.6. Out-of-Pocket Expenses. In accordance with Section 2.3 of the Agreement, and subject to the limitations set forth therein, the City shall pay to the Bank promptly upon receipt of invoice any and all reasonable fees and expenses of the Bank (including the out-of-pocket expenses of the Bank and the reasonable fees of counsel to the Bank).

ARTICLE II. MISCELLANEOUS.

Section 2.1. Amendments. No amendment to this Fee Agreement shall become effective without the prior written consent of the City and the Bank.

Section 2.2. Governing Law. This Fee Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 2.3. Counterparts. This Fee Agreement may be executed in two or more

counterparts, each of which shall constitute an original but both or all of which, when taken together, shall constitute but one instrument.

Section 2.4. Severability. Any provision of this Fee Agreement which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provision in any other jurisdiction.

[Remainder of page intentionally left blank; signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Fee Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

THE CITY OF SAN DIEGO

By: _____
Mary Lewis
Chief Financial Officer

ATTEST:

By: _____
Elizabeth S. Maland
City Clerk

APPROVED AS TO FORM:

JAN I. GOLDSMITH, City Attorney

By: _____
Brant C. Will
Deputy City Attorney

BANK OF AMERICA, N.A.

By: _____
Name: _____
Title: _____

Ratings: Series A Commercial Paper Notes – Fitch – “ ”
 Moody’s “ ”
 Series B Commercial Paper Notes – Fitch – “ ”
 Moody’s “ ”
 See “RATINGS” herein.

OFFERING MEMORANDUM DATED [JANUARY 17, 2017]

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City and the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Commercial Paper Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Commercial Paper Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the City and the Authority, under existing statutes, interest on the Commercial Paper Notes is exempt from State of California personal income tax. See “TAX MATTERS.”

\$250,000,000
PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES
(Payable Solely from Subordinated Installment Payments
Secured by Net System Revenues of the Water Utility Fund)
 consisting of
\$75,000,000 Series A **\$175,000,000 Series B**

The Subordinated Water Revenue Commercial Paper Notes, Series A (the “Series A Commercial Paper Notes”) and the Subordinated Water Revenue Commercial Paper Notes, Series B (the “Series B Commercial Paper Notes” and, together with the Series A Commercial Paper Notes, the “Commercial Paper Notes”) of the Public Facilities Financing Authority of the City of San Diego (the “Authority”) will be issued from time to time in accordance with the terms and provisions of a resolution adopted by the City Council of the City of San Diego (the “City”), a resolution adopted by the Board of Commissioners of the Authority, the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (as heretofore amended and supplemented, the “Agreement”), including as supplemented by the 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017 (the “2017 Commercial Paper Supplement”), by and between the City and the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”), the Indenture, dated as of January 1, 2009 (as heretofore amended and supplemented, the “Indenture”), including as supplemented by the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplement”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), and the Issuing and Paying Agency Agreement, dated as of January 1, 2017 (the “Issuing and Paying Agency Agreement”), by and between the Authority and U.S. Bank National Association, as the issuing and paying agent (the “Issuing and Paying Agent”).

The principal of and interest on the Series A Commercial Paper Notes will be supported by a direct-pay letter of credit (the “BotW Letter of Credit”) to be issued by Bank of the West (the “BotW”) and the principal of and interest on the Series B Commercial Paper Notes will be supported by a direct-pay letter of credit (the “BofA Letter of Credit” and, together with the BotW Letter of Credit, the “Letters of Credit”) to be issued by Bank of America, N.A. (“BofA” and, together with BotW, the “Credit Providers”). Each Letter of Credit may be drawn upon to pay principal of and interest on the Series of Commercial Paper Notes for which it is issued. See “SECURITY AND SOURCES OF PAYMENT OF THE COMMERCIAL PAPER NOTES” and “THE CREDIT PROVIDERS” herein. **The investment decision to purchase a Series of Commercial Paper Notes should be made solely on the basis of the creditworthiness of the Credit Provider that will issue the applicable Letter of Credit from which will be paid all such principal of and interest on such Series of Commercial Paper Notes, rather than the City. Prospective investors should not rely on any source other than proceeds of drawings under the applicable Letter of Credit to pay such principal of and interest on such Series of Commercial Paper Notes.** The ratings assigned to each Series of Commercial Paper Notes are based on the creditworthiness of the Credit Provider that will issue the applicable Letter of Credit. See “RATINGS” and “CERTAIN RISK FACTORS” herein.

Bank of the West
Series A Commercial Paper Notes
Credit Provider

Bank of America, N.A.
Series B Commercial Paper Notes
Credit Provider

The Commercial Paper Notes will be issued only as fully registered notes in denominations of \$100,000 or any integral multiple of \$1,000 in excess thereof. When issued, the Commercial Paper Notes will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”). DTC will act as securities depository for the Commercial Paper Notes. Ownership interests in the Commercial Paper Notes may be purchased in book-entry form only. So long as DTC or its nominee is the Holder of the Commercial Paper Notes, the principal, the redemption premium, if any, and interest on the Commercial Paper Notes will be made as described in Appendix B – “THE BOOK-ENTRY ONLY SYSTEM.”

The Commercial Paper Notes are special limited obligations of the Authority payable solely from and secured by advances made under the applicable Letter of Credit, then from proceeds from the sale of Commercial Paper Notes and, if the foregoing is insufficient, from Commercial Paper Notes Subordinated Installment Payments under the Agreement. The Commercial Paper Notes Subordinated Installment Payments shall be Subordinated Obligations under the Agreement and the payment of the Commercial Paper Notes Subordinated Installment Payments shall be on parity in right of payment to the Subordinated Installment Payments under the Agreement. No Holder of the Obligations shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Holders of the Installment Payment Obligations. The Commercial Paper Notes do not constitute a debt, liability or obligation of the City, the State of California (the “State”) or any of its political subdivisions, and neither the faith and credit of the City nor the State are pledged to the payment of the principal of or interest on the Commercial Paper Notes. The Authority has no taxing power. The Commercial Paper Notes do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation or restriction with respect to the City or any other political subdivision or governmental entity.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Commercial Paper Notes. Investors are advised to read the entire Offering Memorandum, including any portion hereof included by reference, to obtain information essential to the making of an informed decision.

BofA Merrill Lynch

Citigroup

RBC Capital Markets

No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Dealers to give any information or to make any representation, other than the information and representations contained in this Offering Memorandum, in connection with the offering of the Commercial Paper Notes, and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the City or the Dealers. This Offering Memorandum does not constitute an offer to sell or solicitation of an offer to buy any of the Commercial Paper Notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The information set forth herein has been furnished by the Authority and the City and includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or the Credit Providers since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such documents and laws.

The information under "THE CREDIT PROVIDERS" relates to and has been furnished by the respective Credit Provider for inclusion herein. None of the City, the Authority, the Corporation, or any other party has independently verified or assumes any responsibility for such information. The City, the Authority, the Corporation and the Dealers cannot and do not make any representation as to the accuracy or completeness of such information or the absence of material changes in such information subsequent to the date hereof.

This Offering Memorandum contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate", "project", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority's and the City's business and financial results could cause actual results to differ materially from those stated in the forward-looking statements. Statements contained in this Offering Memorandum which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The Dealers have provided the following sentence for inclusion in this Offering Memorandum: The Dealers have reviewed the information in this Offering Memorandum in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Dealers do not guarantee the accuracy or completeness of such information.

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\$250,000,000
PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
SUBORDINATED WATER REVENUE COMMERCIAL
PAPER NOTES
(Payable Solely from Subordinated Installment Payments
Secured by Net System Revenues of the Water Utility Fund)
consisting of
\$75,000,000 Series A \$175,000,000 Series B

INTRODUCTION

This Commercial Paper Offering Memorandum (this “Offering Memorandum”), which includes the cover page and appendices, provides general information in connection with the issuance and sale, from time to time, by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) of its Subordinated Water Revenue Commercial Paper Notes, Series A (the “Series A Commercial Paper Notes”) and Subordinated Water Revenue Commercial Paper Notes, Series B (the “Series B Commercial Paper Notes” and, together with the Series A Commercial Paper Notes, the “Commercial Paper Notes”). All references to documents and other materials herein are qualified in their entirety by reference to the complete provisions of those documents and other materials. The information and expressions of opinion in this Offering Memorandum are subject to change without notice after [January 17, 2017], and future use of this Offering Memorandum will not otherwise create any implication that there has been no change in the matters referred to in this Offering Memorandum since [January 17, 2017].

The Authority will issue Commercial Paper Notes from time to time in accordance with the terms and provisions of a resolution adopted by the City Council of the City of San Diego (the “City”) on December __, 2016 (the “City Resolution”), a resolution adopted by the Board of Commissioners of the Authority on December __, 2016 (the “Authority Resolution”), the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (as heretofore amended and supplemented, the “Agreement”), including as supplemented by the 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017 (the “2017 Commercial Paper Supplement”), by and between the City and the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”), the Indenture, dated as of January 1, 2009 (as heretofore amended and supplemented, the “Indenture”), including as supplemented by the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplement”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), and the Issuing and Paying Agency Agreement, dated as of January 1, 2017 (the “Issuing and Paying Agency Agreement”), by and between the Authority and U.S. Bank National Association, as the issuing and paying agent (the “Issuing and Paying Agent”).

The aggregate principal amount of Commercial Paper Notes outstanding under the Indenture at any time may not exceed \$250,000,000. The principal of and interest on the Series A Commercial Paper Notes will be supported by a direct-pay letter of credit (the “BotW Letter of Credit”) to be issued by Bank of the West (the “BotW”) and the principal of and interest on the Series B Commercial Paper Notes will be supported by a direct-pay letter of credit (the “BofA Letter of Credit” and, together with the BotW Letter of Credit, the “Letters of Credit”) to be issued by Bank of America, N.A. (“BofA” and, together with BotW, the “Credit Providers”). Each Letter of Credit may be drawn upon on to pay principal of and interest on the Series of Commercial Paper Notes for which it is issued. The BotW Letter of Credit cannot be drawn upon to pay principal of and interest on the Series B Commercial Paper Notes and the BofA Letter of Credit cannot be drawn upon to pay principal of and interest on the Series A Commercial Paper Notes. See “SECURITY AND SOURCES OF PAYMENT OF THE COMMERCIAL PAPER NOTES” and “THE CREDIT PROVIDERS” herein. **The investment decision to purchase a Series of**

Commercial Paper Notes should be made solely on the basis of the creditworthiness of the Credit Provider that will issue the applicable Letter of Credit from which will be paid all such principal of and interest on such Series of Commercial Paper Notes, rather than the City. Prospective investors should not rely on any source other than proceeds of drawings under the applicable Letter of Credit to pay such principal of and interest on such Series of Commercial Paper Notes. The ratings assigned to each Series of Commercial Paper Notes are based on the creditworthiness of the Credit Provider that will issue the applicable Letter of Credit. See “RATINGS” and “CERTAIN RISK FACTORS” herein.

Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC will serve as the dealers in connection with the offering and sale of the Commercial Paper Notes. See “COMMERCIAL PAPER NOTES – Dealers.”

Unless otherwise indicated, capitalized terms used and note defined in this Offering Memorandum shall have the meanings ascribed thereto in the Indenture and the Agreement.

THE COMMERCIAL PAPER NOTES

Authority; Purpose for Issuance

The Authority is authorized to issue Commercial Paper Notes from time to time under and pursuant to the City Resolution, the Authority Resolution, the Agreement, the Indenture and the Issuing and Paying Agency Agreement in a maximum aggregate principal amount of \$250,000,000 outstanding under the Indenture at any time. The Series A Commercial Paper Notes may be issued in a maximum aggregate principal amount of \$75,000,000 and the Series B Commercial Paper Notes may be issued in a maximum aggregate principal amount of \$175,000,000.

The Commercial Paper Notes may be issued from time to time to provide short-term financing for the costs of design, acquisition, construction, installation, and improvement of components of the City’s water system (the “Water System”), reimburse the City for certain eligible expenditures relating to the Water System, and pay costs of issuance of the Commercial Paper Notes.

Description of Commercial Paper Notes

The Commercial Paper Notes will be issued only as fully registered notes in denominations of \$100,000 or any integral multiple of \$1,000 in excess thereof and will be dated the date of their delivery from time to time under the Indenture. The Commercial Paper Notes will mature on such dates and will bear interest from their date of issuance at such rates as shall be determined by an Authorized City Representative at the date of issuance; provided that (a) the term of any Commercial Paper Note (1) will not exceed 270 days from the date of its issuance, and (2) will not extend beyond a date which is two Commercial Paper Notes Business Days prior to the Termination Date of the “Commercial Paper Notes Credit Support Instrument” (being, with respect to a series or subseries of the Commercial Paper Notes, a credit facility supporting such Commercial Paper Notes), if any, relating to such Commercial Paper Notes in effect at the time that such Commercial Paper Note is issued, and (b) no Commercial Paper Note will bear interest at a rate in excess of the lesser of eleven percent (11%) or the maximum rate per annum permitted by law. In addition, the Commercial Paper Notes will not be subject to redemption prior to maturity. The term “Commercial Paper Notes Business Day,” with respect to any Commercial Paper Note, shall have the meaning given to such term in the related Commercial Paper Notes Credit Support Instrument.

Commercial Paper Notes may be issued as interest-bearing notes or at a discount and at such price as determined by an Authorized City Representative. The Authority shall not issue, or authorize the issuance of, Commercial Paper Notes supported by a Commercial Paper Notes Credit Support Instrument, to the extent that the aggregate principal amount of all outstanding Commercial Paper Notes supported by such Commercial Paper Notes Credit Support Instrument (after giving effect to such issuance and the application of the proceeds thereof) would exceed the amount that may be drawn thereunder in respect of principal of Commercial Paper Notes supported by such Commercial Paper Notes Credit Support Instrument or the sum of the aggregate amount of interest payable (including any portion thereof not yet accrued) in respect of such Commercial Paper Notes supported by such Commercial Paper Notes Credit Support Instrument would exceed the amount that may be drawn under such Commercial Paper Notes Credit Support Instrument in respect of interest thereon. See “THE LETTERS OF CREDIT AND THE REIMBURSEMENT AGREEMENTS.”

Both principal and interest on Commercial Paper Notes shall be payable in any coin or currency of the United States of America which shall then be legal tender for the payment of public and private debts. Except in the case of book-entry-only Commercial Paper Notes, principal of and interest on Commercial Paper Notes shall be payable upon presentation and surrender thereof at the principal office of the Issuing and Paying Agent in New York, New York. Interest on Commercial Paper Notes shall be calculated on the basis of a 365/366-day year for the actual number of days elapsed to the dates on which such Commercial Paper Notes mature.

DTC and the Book-Entry Only System

The Commercial Paper Notes will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”). DTC will act as securities depository for the Commercial Paper Notes. Ownership interests in the Commercial Paper Notes may be purchased in book-entry form only. So long as DTC or its nominee is the Holder of the Commercial Paper Notes, the principal, the redemption premium, if any, and interest on the Commercial Paper Notes will be made as described in Appendix C – “THE BOOK-ENTRY ONLY SYSTEM.”

Dealers

Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC will serve as the dealers in connection with the offering and sale of the Commercial Paper Notes (each a “Dealer”) pursuant to separate Dealer Agreements, each dated as of January 1, 2017 (the “Dealer Agreements”), between the Authority and the related Dealer. Under the respective Dealer Agreements, the Dealers have no commitment to purchase any of the Commercial Paper Notes, but are obligated only to use their best efforts as agents of the Authority to solicit and arrange sales of the Commercial Paper Notes on behalf of the Authority. A Dealer may resign or be discharged of the duties and obligations set forth under the Fifth Supplement in accordance with the applicable Dealer Agreement.

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. In the various course of their various business activities, the Dealers and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City and the Authority (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City, the Corporation or the Authority.

The Dealers and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

THE CITY

The City, with a total population of approximately 1.4 million as of January 1, 2016 and a land area of approximately 342 square miles, is the eighth largest city in the nation by population, and the second largest city by population (and land area) in California. The City is the county seat for the County of San Diego. Major components of the City's diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications. The City's economic base is also anchored by higher education and major scientific research institutions, including the University of California, San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.

The City was incorporated in 1850. The City operates under and is governed by the laws of the State of California (the "State") and the City Charter, as periodically amended since its adoption by the electorate in 1931. The City has been operating under a "Strong Mayor" form of government since January 1, 2006. Under the Strong Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst, Ethics Commission, City Attorney and City Auditor's departments.

The City owns the Water System and operates the Water System through the Public Utilities Department. The City has expanded the Water System from time to time to provide safe, reliable water in an efficient, cost-effective, and environmentally responsible manner. The water service rendered by the City includes the collection, conservation, production, storage, treatment, transmission, furnishing, and distribution services made available or provided by the City's Water System (collectively, "Water Service"). See "SECURITY AND SOURCES OF PAYMENT FOR THE COMMERCIAL PAPER NOTES – Commercial Paper Notes Subordinated Installment Payments – *Installment Payments and Pledge of Net System Revenues.*"

THE CORPORATION

The Corporation is a nonprofit charitable corporation duly organized and existing under and by virtue of the laws of the State. The Corporation was organized to acquire, lease, and/or sell to the City real and personal property to be used in the municipal operations of the City. The Corporation was formed at the request of the City to assist in financings such as the installment purchase financing described herein and is governed by its own Board of Directors. The Corporation is prohibited from engaging in any business or activities other than those incidental to its sole purpose, and no part of its net earnings may accrue to the benefit of any person or entity other than the City.

The Corporation has no liability to the Holders or Holders of any Commercial Paper Notes, and has pledged none of its moneys, funds or assets to any Installment Payments including, without limitation, the Commercial Paper Subordinated Installment Payments or any payments under the Commercial Paper Notes. Pursuant to the Assignment Agreement, dated as of January 1, 2017, the Corporation has assigned its right to receive the Commercial Paper Subordinated Installment Payments to the Authority.

THE AUTHORITY

The Authority is a California joint exercise of powers authority established pursuant to the Third Amended and Restated Joint Exercise of Powers Agreement, dated as of January 1, 2013, by and among the City, the City solely in its capacity as the designated successor agency (the “Successor Agency”) to the former Redevelopment Agency of the City of San Diego (the “Former RDA”), and the Housing Authority of the City of San Diego (the “Housing Authority”). The Authority is organized, in part, to finance certain public capital improvements of the City, the Successor Agency or the Housing Authority.

Except as provided in the Indenture, the Authority has no liability to the Holders or Holders of any of the Commercial Paper Notes and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the Commercial Paper Notes. The Indenture provides that the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Holders, all of the Authority's rights under the Agreement, including the right to receive the Commercial Paper Subordinated Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the related Components, and the right to exercise any remedies provided therein in the event of a default by the City under the Agreement.

The Authority is governed by its own Board of Commissioners consisting of the members of the San Diego City Council. The Authority is dependent upon the officers and employees of the City to administer its programs.

SECURITY AND SOURCES OF PAYMENT FOR THE COMMERCIAL PAPER NOTES

General

The Commercial Paper Notes are special limited obligations of the Authority payable solely from and secured by advances made under the applicable Letter of Credit, then from proceeds from the sale of Commercial Paper Notes and, if the foregoing is insufficient, from Commercial Paper Notes Subordinated Installment Payments under the Agreement. The Commercial Paper Notes Subordinated Installment Payments shall be Subordinated Obligations under the Agreement and the payment of the Commercial Paper Notes Subordinated Installment Payments shall be on parity in right of payment to the Subordinated Installment Payments under the Agreement. No Holder of the Obligations shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Holders of the Installment Payment Obligations.

The Commercial Paper Notes do not constitute a debt, liability or obligation of the City, the State or any of its political subdivisions, and neither the faith and credit of the City nor the State are pledged to the payment of the principal of or interest on the Commercial Paper Notes. The Authority has no taxing power. The Commercial Paper Notes do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation or restriction with respect to the City or any other political subdivision or governmental entity.

The Authority expects to pay the principal of and interest on the Commercial Paper Notes with the proceeds of draws under the applicable Letter of Credit, and to immediately reimburse the respective Credit Provider for such draws with the proceeds of the sale of additional Commercial Paper Notes or retire such Commercial Paper Notes with other moneys either by the issuance of long-term bonds issued under the Indenture and the Agreement or from other available moneys.

The investment decision to purchase a Series of Commercial Paper Notes should be made solely on the basis of the creditworthiness of the Credit Provider that will issue the applicable

Letter of Credit from which will be paid all such principal of and interest on such Series of Commercial Paper Notes, rather than the City. Prospective investors should not rely on any source other than proceeds of drawings under the applicable Letter of Credit to pay such principal of and interest on such Series of Commercial Paper Notes.

Letters of Credit and Security for the Commercial Paper Notes

BotW will issue the BotW Letter of Credit to provide credit support for the timely payment of the principal of and interest on the Series A Commercial Paper Notes. The BotW Letter of Credit will be issued in the current stated amount of \$[77,465,754], which may be drawn upon from time to time solely in respect of the principal of and actual interest accrued on the Series A Commercial Paper Notes, and will expire on [Bank A Expiration Date], unless extended or terminated sooner in accordance with its terms. See “THE LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENTS – Bank of the West.”

BofA will issue the BofA Letter of Credit to provide credit support for the timely payment of the principal of and interest on the Series B Commercial Paper Notes. The BofA Letter of Credit will be issued in the current stated amount of \$[180,753,425], which may be drawn upon from time to time solely in respect of the principal of and actual interest accrued on the Series B Commercial Paper Notes, and will expire on [Bank B Expiration Date], unless extended or terminated sooner in accordance with its terms. See “THE LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENTS – Bank of America, N.A.”

Each Letter of Credit may be drawn upon on to pay principal of and interest on the Series of Commercial Paper Notes for which it is issued. The BotW Letter of Credit cannot be drawn upon to pay principal of and interest on the Series B Commercial Paper Notes and the BofA Letter of Credit cannot be drawn upon to pay principal of and interest on the Series A Commercial Paper Notes.

All Commercial Paper Notes shall be supported by a Commercial Paper Notes Credit Support Instrument (herein defined). The initial Commercial Paper Notes Support Instruments for the Commercial Paper Notes are the BotW Letter of Credit and the BofA Letter of Credit. The Authority agrees and covenants that it shall maintain, or cause the City to maintain, a right under each such Commercial Paper Notes Credit Support Instrument to, and thereby shall permit the Issuing and Paying Agent to, draw funds under each such Commercial Paper Notes Credit Support Instrument to pay the principal of and interest on all Commercial Paper Notes supported thereby in an aggregate amount at least equal to (i) the principal amount of all related Outstanding Commercial Paper Notes and (ii) the interest accrued and to accrue on all related Outstanding Commercial Paper Notes.

To the extent that a Commercial Paper Notes Credit Support Instrument is in full force and effect and so provides, the obligations of the City to make payments thereunder shall constitute a Subordinated Credit Provider Reimbursement Obligation and shall constitute a Subordinated Obligation pursuant to the Agreement.

The Authority will not substitute a Commercial Paper Notes Credit Support Instrument or consent to any assignment by a bank under any reimbursement agreement with respect to any Commercial Paper Notes that such Commercial Paper Notes Credit Support Instrument supports prior to the payment or defeasance of such Commercial Paper Notes.

Commercial Paper Notes Subordinated Installment Payments

General. The Commercial Paper Notes are special limited obligations of the Authority payable solely from and secured by advances made under the applicable Letter of Credit, then from proceeds from the sale of Commercial Paper Notes and, if the foregoing is insufficient, from Commercial Paper Notes Subordinated Installment Payments under the Agreement. Pursuant to the 2017 Commercial Paper Supplement, in the event that a Credit Provider has refused payment for a series of Commercial Paper Notes as provided for in the related Subordinated Credit Support Instrument and the amount in the related Credit Enhanced Note Account and Reimbursement Account (each as defined in the Fifth Supplement) established for such series of Commercial Paper Notes is not sufficient to pay the principal of and accrued interest on such Commercial Paper Notes as provided in the Issuing and Paying Agency Agreement and the Indenture, the City will pay the amount of such insufficiency and the City will transfer moneys from the Water Utility Fund (herein defined) to the related Reimbursement Account in an aggregate amount, together with other moneys held in the related Credit Enhanced Note Account and such Reimbursement Account, sufficient for the payment of principal of and accrued interest on such Commercial Paper Notes due on such Commercial Paper Notes Installment Payment Date. The term “Commercial Paper Notes Installment Payment Date” means (i) any date determined by the City to make a Commercial Paper Notes Subordinated Installment Payment, (ii) the business day prior to each Interest Payment Date or Principal Payment Date for the Commercial Paper Notes, and (iii) each date on which any Subordinated Credit Provider Reimbursement Obligation is due or transfers with respect thereto are to be made. The term “Interest Payment Date” means each February 1 and August 1, each date on which Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture. The term “Principal Payment Date” means each August 1, each date on which Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture.

The Commercial Paper Notes Subordinated Installment Payments are payable solely from Net System Revenues, as provided in the Agreement, on each Commercial Paper Notes Installment Payment Date in amounts equal to the principal of and interest accrued on the Commercial Paper Notes and any related Subordinate Credit Provider Reimbursement Obligations as and when due. Pursuant to the 2017 Commercial Paper Supplement, the Commercial Paper Notes Subordinated Installment Payments are Subordinated Obligations under the Agreement and the payment of the Commercial Paper Notes Subordinated Installment Payments shall be on parity in right of payment to the Subordinated Installment Payments under the Agreement. The Commercial Paper Notes Subordinated Installment Payments are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of its Senior Obligations (defined below and referred to as “Parity Obligations” under the Agreement) then outstanding under the Agreement. No Holder of the Obligations shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Holders of the Installment Payment Obligations.

Payments from the Water Utility Fund. The “Water Utility Fund” is the enterprise fund through which the City accounts for its water operations. The Water Utility Fund was established pursuant to an amendment to the City Charter effective February 11, 1963, and is accounted for separately from other funds of the City. The City has agreed and covenanted in the Agreement that all System Revenues shall be received by the City in trust and shall be deposited when and as received in the Water Utility Fund, which fund the City agrees and covenants to maintain so long as any Obligations remain unpaid, and all moneys in the Water Utility Fund shall be so held in trust and applied and used solely as provided in the Agreement. The City further has agreed to pay from the Water Utility Fund: (1) directly or as otherwise required all Maintenance and Operation Costs of the Water System; and (2) to the Trustee, for deposit in the Payment Fund for Senior Obligations, including Reserve Fund Obligations that are Senior Obligations, the amounts specified in any Issuing Instrument, as payments due on account of Senior Obligations (including any Credit Provider Reimbursement Obligations that are Senior Obligations). In

the event there are insufficient Net System Revenues to make all of the payments contemplated by clause (2) of the immediately preceding sentence, then said payments shall be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of said Senior Obligations. The State Revolving Fund Loans (the “SRF Loans”) outstanding in the principal amount of \$[59,863,853] are the only Senior Obligations currently Outstanding. Each outstanding SRF Loan includes terms for the funding and reimbursement of a debt service reserve fund established for such SRF Loan. The City may incur additional Senior Obligations from time to time in accordance with the Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE COMMERCIAL PAPER NOTES – Issuance of Additional Obligations Under the Agreement – *Issuance of Senior Obligations.*” The City expects to enter into approximately \$72 million principal amount of additional SRF Loans in the first half of calendar year 2017.

After the payments described in the preceding paragraph have been made, and in any event not less frequently than January 15 and July 15 of each year, any remaining Net System Revenues shall be used to make up any deficiency in the Reserve Funds for Senior Obligations. In the event there are insufficient Net System Revenues to make up all deficiencies in all Reserve Funds for Senior Obligations, such payments into the Reserve Funds shall be made as nearly as practicable pro rata based on the respective unpaid principal amount of all Senior Obligations. Any amounts thereafter remaining in the Water Utility Fund may from time to time be used to pay the amounts specified in any Issuing Instrument as payments due on account of Subordinated Obligations, including the Subordinated Installment Payments for the 2012A Bonds, 2016A Bonds and 2016B Bonds currently Outstanding and any reserve fund obligations therefor and the Commercial Paper Notes Subordinated Installment Payments, provided the following conditions are met: (a) all Maintenance and Operation Costs of the Water System are being and have been paid and are then current; and (b) all deposits and payments contemplated by clause (b) of the preceding paragraph shall have been made in full and no deficiency in any Reserve Fund for Senior Obligations shall exist, and there shall have been paid, or segregated within the Water Utility Fund, the amounts payable during the current month pursuant to clause (b) of the preceding paragraph.

After deposits described in the preceding paragraphs have been made, any amounts thereafter remaining in the Water Utility Fund may be used for any lawful purpose of the Water System.

Senior Bonds. Pursuant to the Indenture, on or before each Interest Payment Date, the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Interest Account that amount of money that, together with any money contained in the Senior Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. No deposit need be made in the Senior Bonds Interest Account if the amount contained in the Senior Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. All money in the Senior Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Senior Bonds as it shall become due and payable (including accrued interest on any Senior Bonds redeemed prior to maturity).

On or before each Principal Payment Date, the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Principal Account that amount of money that, together with any money contained in the Senior Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Senior Bonds. No deposit need be made in the Senior Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on Outstanding Senior Bonds. All money in the Senior Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Senior Bonds as it shall become due and payable. Within the Senior Bonds Payment Fund, there is established a special account designated the “Senior Bonds Redemption Account.” All

money in the Senior Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Senior Bonds.

Any delinquent Installment Payments pledged to the Senior Bonds shall be applied first to the Senior Bonds Interest Account for the immediate payment of interest payments past due and to the Senior Bonds Principal Account for immediate payment of principal payments past due on any Senior Bond. Any remaining money representing delinquent Installment Payments pledged to Senior Bonds shall be deposited in the Senior Bonds Payment Fund to be applied in the manner provided therein.

Subordinated Bonds. Pursuant to the Indenture, except to the extent that payment is made of interest on the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Commercial Paper Notes Credit Support Instrument, on or before each Interest Payment Date, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Interest Account that amount of money that, together with any money contained in the Subordinated Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date. No deposit need be made in the Subordinated Bonds Interest Account if the amount contained in the Subordinated Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date. All money in the Subordinated Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Subordinated Bonds as it shall become due and payable (including accrued interest on any Subordinated Bonds redeemed prior to maturity). The Authority may direct the Trustee to maintain amounts in the Subordinated Bonds Interest Account following payment of all amounts required to be paid under the Indenture to be used for payments on Commercial Paper Notes on future Interest Payment Dates.

Except to the extent that payment is made of the principal of the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Commercial Paper Notes Credit Support Instrument, on or before each Principal Payment Date, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Principal Account that amount of money that, together with any money contained in the Subordinated Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Subordinated Bonds. No deposit need be made in the Subordinated Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Subordinated Bonds as it shall become due and payable.

In addition to the above accounts, the Trustee shall establish and maintain within the Subordinated Bonds Payment Fund a special account designated the "Subordinated Bonds Redemption Account." All money in the Subordinated Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Subordinated Bonds.

Any delinquent Installment Payments pledged to the Subordinated Bonds shall be applied first to the Subordinated Bonds Interest Account for the immediate payment of interest payments past due and to the Subordinated Bonds Principal Account for immediate payment of principal payments past due on any Subordinated Bond. Any remaining money representing delinquent Subordinated Installment Payments pledged to Subordinated Bonds shall be deposited in the Subordinated Bonds Payment Fund to be applied in the manner provided therein.

On or before each date any Commercial Paper Note matures, the Trustee shall transfer from the Subordinated Bonds Payment Fund to the Issuing and Paying Agent for deposit in the applicable

Reimbursement Account that amount of money that equals the aggregate amount of interest or principal becoming due and payable on the Commercial Paper Notes to the extent that payment of such interest on or principal of the Commercial Paper Notes is not made from the proceeds of Commercial Paper Notes but is made from the proceeds of a Draw under the related Commercial Paper Notes Credit Support Instrument. On or before each date any related Subordinated Credit Provider Reimbursement Obligations become due and payable, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the applicable Reimbursement Account that amount of money that, together with any amounts transferred pursuant to the preceding sentence, equals the amount of any such Subordinated Credit Provider Reimbursement Obligations when due.

Installment Payments and Pledge of Net System Revenues. The Agreement provides for the payment by the City of Senior Obligations and Subordinated Obligations in amounts sufficient to make payments of the principal of and interest on Bonds of the Authority and SRF Loans of the City. Pursuant to the Agreement, the City agrees to make Installment Payments (including the Commercial Paper Subordinated Installment Payments) solely from Net System Revenues. The City agrees to make Installment Payments solely from Net System Revenues until such time as the Purchase Price for any Components (including Commercial Paper Notes Components) has been paid in full (or provision for the payment thereof has been made pursuant to the Agreement).

The City will not discontinue or suspend any Installment Payments (including the Commercial Paper Subordinated Installment Payments) required to be made by the City under the Agreement, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed, or terminated, in whole or in part, and such Installment Payments (including the Commercial Paper Subordinated Installment Payments) shall not be subject to reduction, whether by offset or otherwise, and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The term “Net System Revenues” is defined in the Agreement as, for any “Fiscal Year” (the period beginning on July 1 of each year and ending on June 30 of the following year), the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

The term “System Revenues” is defined in the Agreement as all income, rents, rates, fees, charges, and other moneys derived from the Ownership or operation of the Water System, including, without limiting the generality of the foregoing: (a) all income, rents, rates, fees, charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, including hydroelectric power, sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law, and earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the indenture, trust agreement, loan agreement, lease, or installment purchase agreement under which the applicable Obligations are issued (each, an “Issuing Instrument”) for the payment of debt service for such Obligations; (b) standby charges and Capacity Charges derived from the services and facilities sold or supplied through the Water System; (c) the proceeds derived by the City directly or indirectly from the lease of a part of the Water System; (d) any amount received from the levy or collection of taxes that are solely available and are earmarked for the support of the operation of the Water System; (e) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for the Water System; and (f) grants for maintenance and operations received from the United States of America or from the State; provided, however, that System Revenues shall not include: (1) in all cases, customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (2) the proceeds of borrowings.

Notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Agreement and any amounts transferred from current System Revenues to the Secondary Purchase Fund as permitted by the Agreement. There shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System.

The term “Maintenance and Operation Costs of the Water System” is defined in the Agreement as (a) any Qualified Take or Pay Obligation (as defined herein), and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and the Agreement, salaries and wages of employees of the Water System, payments to such employees’ retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers, and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (herein defined).

The term “Obligations” is defined in the Agreement as (a) obligations of the City for money borrowed (such as bonds, notes, or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal of and interest on which are payable from Net System Revenues; (b) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (c) obligations secured by or payable from any of such obligations of the City; and (d) obligations of the City payable from Net System Revenues under (1) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (2) any contract to exchange cash flows or a series of payments, or (3) any contract to hedge payment, currency, rate spread, or similar exposure, including but not limited to interest rate cap agreements.

All Senior Obligations are of equal rank with each other without preference, priority, or distinction of any Senior Obligations over any other Senior Obligations. The term “Senior Obligations” is defined in the Agreement as (a) Installment Obligations (as defined herein), (b) Obligations, the principal of and interest on which are payable on a parity with Installment Obligations, and (c) Reserve Fund Obligations. The term “Installment Obligations” is defined in the Agreement as Obligations consisting of or payable from Installment Payments, which are not subordinated in right of payment to other Installment Payments. The term “Credit Provider” is defined in the Agreement as any municipal bond insurance company, bank, or other financial institution or organization that is performing in all material respects its obligations under any policy of insurance, letter of credit, standby purchase agreement, revolving Subordinated Credit Support Instrument, or other credit arrangement providing credit support or liquidity with respect to Senior Obligations (each, a “Credit Support Instrument”) (other than in repayment of a “Credit Provider Reimbursement Obligation” (which term is defined in the Agreement to mean any obligation of the City to repay, from Net System Revenues, amounts advanced by a Credit Provider as credit support or liquidity for Senior Obligations, which obligation shall constitute a Senior Obligation or a Subordinated Obligation, as designated by the City), but excluding in all cases (1) depreciation, replacement, and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions, or improvements to the Water System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of

principal of and interest on any general obligation bond heretofore or hereafter issued for Water System purposes, and (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on a parity with, to the Installment Payments. The term “Reserve Fund Obligations” is defined in the Agreement as the obligations of the City to pay amounts advanced under any Reserve Fund Credit Facility entered into in accordance with the provisions of the related Issuing Instrument or Supplement, which obligations shall constitute Senior Obligations or Subordinated Obligations, as designated by the City.

The term “Qualified Take or Pay Obligation” is defined in the Agreement as the obligation of the City to make use of any facility, property, or services, or some portion of the capacity thereof, or to pay therefor from System Revenues, or both, whether or not such facilities, properties, or services are ever made available to the City for use, and there is provided to the City a certificate of the City or of an Independent Engineer to the effect that the incurrence of such obligation will not adversely affect the ability of the City to comply with the rate covenant contained in the Agreement. As of the date of issuance of the Commercial Paper Notes, there will be no outstanding Qualified Take or Pay Obligations.

Outstanding Senior Obligations. The pledge and right of payment from Net System Revenues securing the Commercial Paper Notes Subordinated Installment Payments (which, in turn, secure the payment of the Commercial Paper Notes) will be subordinate to the pledge and right of payment from Net System Revenues securing the Installment Payments payable on a senior basis and which, in turn, secure the payment of the SRF Loans outstanding in the principal amount of \$[59,863,853], being the only Senior Obligations outstanding as of January 1, 2017.

All Senior Obligations are secured by a first priority lien on and pledge of Net System Revenues. All Senior Obligations are of equal rank with each other without preference, priority, or distinction of any Senior Obligations over any other Senior Obligations.

Outstanding Subordinated Obligations. The Agreement permits the issuance of Obligations secured by a lien on and pledge of Net System Revenues, which lien and pledge is subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations (each, a “Subordinated Obligation”). As of January 1, 2017, there is Outstanding under the Agreement Subordinated Obligations in connection with the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Refunding Series 2012A (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2012A Bonds”) outstanding in the aggregate principal amount of \$130,680,000, the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2016A (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2016A Bonds”) outstanding in the aggregate principal amount of \$40,540,000 and the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Refunding Series 2016B (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2016B Bonds”) outstanding in the aggregate principal amount of \$493,785,000.

Nothing contained in the Agreement limits the ability of the City to grant a lien on and pledge of the Net System Revenues that is subordinate to any liens on and pledges of Net System Revenues for the benefit of Subordinated Obligations, including the Commercial Paper Subordinated Installment Payments.

Issuance of Additional Obligations Under the Agreement

Pursuant to the Agreement, the City may incur additional Obligations, payments with respect to which will be senior to, or on parity with, the City’s obligation to make Commercial Paper Subordinated

Installment Payments, subject to satisfaction of the conditions specified in the Agreement, as described below.

Issuance of Senior Obligations. The City may not create any Obligations, the payments of which are senior or prior in right to the payment by the City of the outstanding Senior Obligations and obligations payable from Net System Revenues on a parity therewith (collectively, the “Senior Obligations”). The City may issue or create any other Senior Obligations, provided that (a) there shall not have occurred and be continuing an Event of Default under the terms of the Agreement, any Issuing Instrument, or any Credit Support Instrument and (b) the City obtains or provides a certificate or certificates, prepared by the City or at the City’s option by a Consultant, showing that:

(1) the Net System Revenues as shown by the books of the City for any 12 consecutive month period within the 18 consecutive months ending immediately prior to the incurring of such additional Senior Obligations shall have amounted to or exceeded the greater of (A) at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations to be Outstanding immediately after the issuance of the proposed Senior Obligations or (B) at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Senior Obligations; or

(2) the estimated Net System Revenues for the five Fiscal Years following the earlier of (A) the end of the period during which interest on those Senior Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Senior Obligations are issued, or (B) the date on which substantially all new Components to be financed with such Senior Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations that will be Outstanding immediately after the issuance of the proposed Senior Obligations.

The certificate or certificates described in clause (2) above will not be required if the Senior Obligations being issued are for the purpose of refunding (i) then Outstanding Senior Obligations if at the time of the issuance of such Senior Obligations a certificate of an Authorized City Representative is delivered showing that the sum of Adjusted Debt Service on all Senior Obligations Outstanding for all remaining Fiscal Years after the issuance of the refunding Senior Obligations will not exceed the sum of Adjusted Debt Service on all Senior Obligations Outstanding for all remaining Fiscal Years prior to the issuance of such refunding Senior Obligations; or (ii) then Outstanding Balloon Indebtedness, Tender Indebtedness, or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to, or otherwise purchased pursuant to a standby purchase or other liquidity facility relating to such indebtedness.

The term “Adjusted Debt Service” is defined in the Agreement as, for any Fiscal Year, Debt Service on Senior Obligations for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund for Senior Obligations for such Fiscal Year. Adjusted Debt Service does not include debt service on Subordinated Obligations, such as the Commercial Paper Notes Subordinated Installment Payments. Net System Revenues (and, therefore, Adjusted Net System Revenues) may be increased or reduced by transfers in to or out of the Rate Stabilization Fund or the Secondary Purchase Fund described in the Agreement.

Issuance of Subordinated Obligations. Pursuant to the Agreement, if (a) no Event of Default has occurred and is continuing, and (b) no event of default or termination event attributable to an act of or failure to act by the City under any Credit Support Instrument has occurred and is continuing, the City may issue or incur additional Subordinated Obligations, and such Subordinated Obligations shall be paid

in accordance with the provisions of the Agreement, provided that the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(1) the Net System Revenues as shown by the books of the City for any 12 consecutive month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations that will be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or

(2) the estimated Net System Revenues for the five Fiscal Years following the earlier of (A) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (B) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service on all Obligations that will be Outstanding immediately after the issuance of the proposed Subordinated Obligations.

The certificate or certificates described in clauses (1) and (2) above will not be required if the Subordinated Obligations being issued are for the purpose of refunding (i) then-Outstanding Senior Obligations or Subordinated Obligations if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative is delivered showing that the sum of Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed the sum of Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness, or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to, or otherwise purchased by a standby purchase agreement or other liquidity facility relating to such indebtedness. For additional information relating to the terms and conditions for the issuance of the Subordinated Obligations under the Agreement.

Issuance of Additional Bonds Under the Indenture

Pursuant to the Indenture, the Trustee may, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of bonds, which may include Additional Senior Bonds and Additional Subordinated Bonds (collectively, the "Additional Bonds"). As defined in the Indenture, the term "Additional Senior Bonds" means those Bonds authorized and issued pursuant to the Indenture on a parity with the SRF Loans. The term "Additional Subordinated Bonds" means those Bonds authorized and issued pursuant to the Indenture on a parity with the 2012A Subordinated Bonds, the 2016A Bonds and the 2016B Bonds.

The issuance of Additional Bonds is conditioned upon satisfaction of the following:

(a) No Event of Default shall have occurred and be then continuing;

(b) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds shall specify the purposes for which such Additional Bonds are then proposed to be delivered, which shall be one or more of the following: (1) to provide moneys needed to provide for Project Costs by depositing into the Acquisition Fund the proceeds of such Additional Bonds to be so applied; (2) to provide for the payment or redemption of Bonds then Outstanding hereunder, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (3) to provide moneys needed to refund or refinance all or part of any other current or

future obligations of the City with respect to the funding of the Water System. Such Supplemental Indenture may, but shall not be required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code (in the case of Tax-Exempt Bonds) and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other Obligations of the City, expenses incident to calling, redeeming, paying or otherwise discharging the Obligations to be paid with the proceeds of the Additional Bonds;

(c) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds shall state whether such Additional Bonds shall be Senior Bonds or Subordinated Bonds;

(d) If such Additional Bonds are Subordinated Bonds, the Supplemental Indenture shall specify whether such Additional Bonds shall be secured by the Common Subordinated Bonds Reserve Fund, a Separate Subordinated Bonds Reserve Bonds or no reserve fund;

(e) Prior to the Amendment Effective Date, if such Additional Bonds are Senior Bonds, the Authority shall deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in the Reserve Fund established for the Senior Bonds to the applicable Reserve Fund Requirement;

(f) After the Amendment Effective Date, if such Additional Bonds are Common Senior Reserve Fund Bonds, the Authority shall deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance of the Common Senior Bonds Reserve Fund to the Common Senior Bonds Reserve Fund Requirement;

(g) After the Amendment Effective Date, if such Additional Bonds are Senior Bonds to be secured by a Separate Senior Bonds Reserve Fund, the Authority shall deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in such Separate Senior Bonds Reserve Fund to the Separate Senior Bonds Reserve Fund for such Series of Senior Bonds;

(h) If such Additional Bonds are Common Subordinated Reserve Fund Bonds, the Authority shall deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance of the Common Subordinated Bonds Reserve Fund to the Common Subordinated Bonds Reserve Fund Requirement;

(i) If such Additional Bonds are Subordinated Bonds to be secured by a Separate Subordinated Bonds Reserve Fund, the Authority shall deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in such Separate Subordinated Bonds Reserve Fund to the Separate Subordinated Bonds Reserve Fund for such Series of Subordinated Bonds;

(j) The Additional Bonds shall be payable as to principal and interest on such dates as shall be provided for in the Supplemental Indenture, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months;

(k) Fixed serial maturities or mandatory sinking account payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such Series on or before their respective maturity dates;

(l) The aggregate principal amount of Bonds and Additional Bonds executed and delivered hereunder shall not exceed any limitation imposed by law or by any Supplemental Indenture; and

(m) The Trustee shall be the Trustee for the Additional Bonds.

Such conditions include terms for the establishment of a Common Subordinated Bonds Reserve Fund, series specific Separate Subordinated Bonds Reserve Bonds or no debt service reserve fund. Debt service reserve funds were created in connection with the issuance of the 2012A Subordinated Bonds, and under the funding agreements for the existing SRF Loans. As described elsewhere in this Offering Memorandum, amounts on deposit in, or to be on deposit in, such debt service reserve funds, and as established or may hereafter be established including under the funding agreements for SRF loans, are not available to secure the Commercial Paper Notes. No debt service reserve fund will be created or funded to secure the Commercial Paper Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE COMMERCIAL PAPER NOTES."

Nothing in the Indenture limits in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

Rate Covenant

The City has covenanted in the Agreement to fix, prescribe, and collect rates and charges for the City's Water Service, which will be at least sufficient to yield the greater of (a) Net System Revenues sufficient to pay during each Fiscal Year all Obligations (including the Commercial Paper Subordinated Installment Payments and loan payments due on SRF loans) payable in such Fiscal Year, or (b) Adjusted Net System Revenues (as defined herein) during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year. Adjusted Debt Service does not include debt service on Subordinated Obligations, such as the Commercial Paper Subordinated Installment Payments.

THE LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENTS

The following are summaries of certain provisions of the Letters of Credit and the Reimbursement Agreements. The following summaries do not purport to be full and complete statements of the provisions of each Letter of Credit or each Reimbursement Agreement, which documents should be read in full for a complete understanding of all the terms and provisions thereof. Copies of each Letter of Credit and the corresponding Reimbursement Agreement (in their current form) may be obtained from the Corporation, the City or the Authority. Except as otherwise defined herein, capitalized terms used under this heading "THE LETTERS OF CREDIT," without definition have the respective meanings set forth in each Letter of Credit and the corresponding Reimbursement Agreement. See "THE CREDIT PROVIDERS."

[TO BE UPDATED BEFORE JANUARY 2017 DISTRIBUTION OF OFFERING MEMORANDUM]

The Letters of Credit

The following is a summary of certain provisions of each applicable Letter of Credit to be issued by the related Credit Provider. These summaries are not to be considered a full statement of the terms of

each applicable Letter of Credit and accordingly is qualified by reference thereto and is subject to the full text thereof. Except as otherwise defined herein, capitalized terms used in this Offering Memorandum without definition have the respective meanings set forth in the applicable Letter of Credit.

At the request and for the account of the City, BotW will issue the BotW Letter of Credit in favor of the Issuing and Paying Agent in the current stated amount of \$[77,465,754], which may be drawn upon from time to time solely in respect of the principal of and actual interest accrued on the Series A Commercial Paper Notes. At the request and for the account of the City, BofA will issue its irrevocable transferable the BofA Letter of Credit in favor of the Issuing and Paying Agent in the current stated amount of \$[180,753,425], which may be drawn upon from time to time solely in respect of the principal of and actual interest accrued on the Series B Commercial Paper Notes. The terms of the BotW Letter of Credit and the BofA Letter of Credit are identical in all material respects. Each of the BotW Letter of Credit and the BofA Letter of Credit have a scheduled expiration date of January __, 2020 (such date as it may be extended by the applicable Credit Provider, the “Stated Expiration Date”).

No amount may be drawn under the BotW Letter of Credit to pay the principal of or interest on Series B Commercial Paper Notes. No amount may be drawn under the BofA Letter of Credit to pay the principal of or interest on Series A Commercial Paper Notes.

The stated amount of each Letter of Credit in effect from time to time shall be subject to reductions and reinstatements as set forth in such Letter of Credit. The Issuing and Paying Agent will draw moneys under each Letter of Credit to the extent necessary to pay principal of and interest on Commercial Paper Notes of the applicable Series (each, a “Drawing”). Drawings by the Issuing and Paying Agent under each Letter of Credit will reduce the amounts available for subsequent drawings under such Letter of Credit, subject to reinstatement as provided in such Letter of Credit. All drawings under each Letter of Credit will be paid with the related Credit Provider’s own immediately available funds and will not be paid directly or indirectly from funds of any other person. The related Credit Provider will seek reimbursement for payments made pursuant to drawings under each Letter of Credit only after such payments have been made.

The City and the Authority may elect to reduce the stated amount of any Letter of Credit from time to time prior to the applicable Stated Expiration Date to an amount not less than the sum of the outstanding principal amount of Commercial Paper Notes of the applicable Series plus interest to accrue thereon to the maturity date thereof.

Each Letter of Credit shall expire at 2:00 p.m., Los Angeles, California time (in the case of the BotW Letter of Credit), or 5:00 p.m., Scranton, Pennsylvania time (in the case of the BofA Letter of Credit), on the date (the earliest of such date to occur referred to herein as the applicable “Termination Date”) which is the earliest of (i) the applicable Stated Expiration Date; provided, however, that if such date is not a Business Day, the applicable Stated Expiration Date shall be the next preceding Business Day; (ii) later of the date on which the related Credit Provider receives a specified written notice from the Issuing and Paying Agent that an Alternate Subordinated Credit Support Instrument has been substituted for such Letter of Credit in accordance with the Issuing and Paying Agency Agreement or the effective date of any such Alternate Subordinated Credit Support Instrument (after the Credit Provider honors any properly presented and conforming drawing, if any, on such date), (iii) the date on which the related Credit Provider receives a specified written notice from the Issuing and Paying Agent that there are no longer any Commercial Paper Notes of the applicable Series Outstanding within the meaning of the Indenture and that the Issuing and Paying Agent elects to terminate such Letter of Credit or (iv) the earlier of (a) the 15th calendar day (or if such date is not a Business Day, the immediately succeeding Business Day) after the date on which the Issuing and Paying Agent receives the final drawing notice (the “Final Drawing Notice”) issued by the applicable Credit Provider following the occurrence of an event of default

under the reimbursement agreement between such Credit Provider and the City (each, a “Reimbursement Agreement”) (or if the Issuing and Paying Agent receives the Final Drawing Notice after 7:00 a.m. Los Angeles, California time (in the case of the BotW Letter of Credit) or 10:00 a.m. Scranton, Pennsylvania time (in the case of the BofA Letter of Credit) on a Business Day, the 15th calendar day (or if such date is not a Business Day, the immediately succeeding Business Day) after the day after the Issuing and Paying Agent’s receipt of the Final Drawing Notice) and (b) the date on which the Final Drawing is honored under the applicable Letter of Credit.

Except as expressly stated therein, each Letter of Credit shall be governed by, and construed in accordance with, the terms of the International Standby Practices 1998, International Chamber of Commerce Publication No. 590 (the “ISP98”). As to matters not governed by the ISP98, each Letter of Credit shall be governed by and construed in accordance with Article 5 of the Uniform Commercial Code of the State of New York, without regard to conflict of laws.

The Reimbursement Agreements

General. The City and each Credit Provider will enter into a Reimbursement Agreement, pursuant to which the applicable Letter of Credit will be issued. Among other things, each Reimbursement Agreement provides for (a) the repayment to the related Credit Provider of all draws made under the applicable Letter of Credit, together with specified interest thereon; (b) the payment or reimbursement to the related Credit Provider of certain specified fees, costs and expenses; (c) representations and warranties to be made to the applicable Credit Provider by the City, the Authority and the Corporation; (d) affirmative and negative covenants to be observed on the part of the City (which, in some instances, extend to the Authority and the Corporation); (e) events of default and remedies; and (f) certain indemnification obligations on the part of the Corporation and the City.

Defined Terms. For purposes of this Offering Memorandum, the following terms shall have the following meanings:

“Bank Loan” means, with respect to a Drawing under a Letter of Credit, the Unreimbursed Amount with respect to such Drawing that is automatically converted to a loan at 4:00 p.m. San Diego time on the 180th day succeeding the date such Drawing was made (the “Liquidity Period End Date”), which automatic conversion shall occur if (a) representations and warranties of the City, the Authority and the Corporation contained in the applicable Reimbursement Agreement (i) which are not qualified by materiality (including, without limitation, “material adverse change” and “material adverse effect”) shall be true and correct in all material respects to and (ii) which are qualified by materiality (including, without limitation, “material adverse change” and “material adverse effect”) shall be true and correct in all respects, in each case to the same extent as though made on and as of the Liquidity Period End Date, except to the extent that such representations and warranties specifically relate to an earlier date and to the extent that any such representation or warranty specifically relates to an earlier date, such representation or warranty shall be true and correct as of such date; and (b) no Event of Default (as defined below) shall have occurred and be continuing and no Event of Default will result from the making of the Bank Loan.

“Bank Note” means the promissory note made by the City in favor of each Credit Provider to evidence the City’s obligation to pay all Unreimbursed Amounts and Bank Loans under the applicable Reimbursement Agreement resulting from drawings under the Letter of Credit issued by such Credit Provider.

“City Document” means (a) the Agreement, (b) the applicable Reimbursement Agreement, (c) the applicable Fee Letter, and (d) the applicable Bank Note, each as amended from time to time in accordance with their respective terms.

“Commercial Paper Documents” means (a) those provisions of the Indenture relating to the pledge of revenues and payment fund, covenants, events of default, remedies, amendments and supplemental indentures and the terms of the Commercial Paper Notes, (b) the Agreement, (c) the Assignment Agreement, (d) the Issuing and Paying Agency Agreement, (e) the Dealer Agreements, (f) the Commercial Paper Notes, (g) the applicable Reimbursement Agreement, (h) the applicable Fee Agreement and (i) the applicable Bank Note, each as amended from time to time in accordance with their respective terms.

“Fee Agreement” means the agreement entered into by the City and each Credit Provider addressing fees and expenses in connection with each Credit Provider’s Letter of Credit and Reimbursement Agreement.

“Governmental Authority” means any federal, state or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, administrative, public or statutory instrumentality, authority, body, agency, commission, bureau or other entity exercising executive, legislative, judicial, taxing, regulatory, fiscal, monetary or administrative powers or functions of or pertaining to government (including any zoning authority, the Federal Deposit Insurance Corporation or the Federal Reserve Board, any central bank or any comparable authority), or any arbitrator with authority to bind a party at law.

“Net System Revenues” has the meaning set forth in the Agreement.

“Obligation” has the meaning set forth in the Agreement.

“Parity Obligation” has the meaning set forth in the Agreement.

“Payment Obligation” means any and all obligations of the City to pay or reimburse the applicable Credit Provider contained in or evidenced by any City Document, including, without limitation, obligations to reimburse such Credit Provider for all Drawings under the Letter of Credit issued by such Credit Provider, all obligations to repay such Credit Provider for any Unreimbursed Amount and any Bank Loan, including all interest accrued thereon, all amounts owing under the Bank Note made in favor of such Credit Provider, the fees relating to the Letter of Credit issued by such Credit Provider and all other obligations of the City to such Credit Provider arising under, or in relation to, or evidenced by, the applicable Reimbursement Agreement, the applicable Fee Agreement and the Bank Note made in favor of such Credit Provider.

“Permitted Parity Obligation” means Obligations of the City payable from or secured by a lien on Net System Revenues that is on parity in right of payment to Parity Obligations permitted to be issued or created pursuant to Section 5.03(c) of the Agreement.

“Permitted Subordinated Obligation” means Obligations of the City payable from or secured by a lien on Net System Revenues that is subordinated in right of payment to Parity Obligations permitted to be issued or created pursuant to Section 5.03(f) of the Agreement.

“Rating Agency” means Fitch Ratings, Inc. or Moody’s Investors Service, Inc. (and their respective successors and assigns, or if they shall be dissolved or liquidated or cease to perform the functions of a securities rating agency, any other nationally recognized securities rating agency selected by the City).

“Subordinated Credit Provider Reimbursement Obligation” has the meaning set forth in the Agreement.

“Subordinated Obligation Rating” shall mean the long-term unenhanced, unsecured debt ratings assigned by the Rating Agencies to any Subordinated Obligations.

“Subordinated Obligations” has the meaning given to that term in the Agreement.

“System Revenues” has the meaning set forth in the Agreement.

“Unreimbursed Amounts” means with respect to the applicable Letter of Credit, the amount of each Drawing on such Letter of Credit for which the applicable Credit Provider has not been reimbursed by or on behalf of the City, but not including the outstanding balance of all Bank Loans owing to such Credit Provider.

Events of Default. The occurrence of any of the following events shall be an “Event of Default” under the applicable Reimbursement Agreement:

(a) The City shall fail to pay to the Credit Provider when due (whether upon demand or otherwise) (i) the principal of, or interest on, any Unreimbursed Amount or Bank Loan or (ii) any other any of the Payment Obligation and such default shall remain unremedied for five (5) business days; or

(b) The City fails to perform or observe (i) certain specified covenants set forth in the applicable Reimbursement Agreement; or (ii) fails to perform or observe any other term, covenant or agreement contained in the applicable Reimbursement Agreement (other than those referred to in (a) or (b)(i) above) or any other City Document and such failure shall not have been cured within thirty (30) days after the earlier to occur of (x) the date of delivery of written notice of such failure to the City by the applicable Credit Provider, and (y) the date on which the City has actual knowledge of such failure; or

(c) The City shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of the City or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts, (vi) fail to controvert in a timely or appropriate manner, or acquiesce, any petition filed against the City in any involuntary case under said Federal Bankruptcy Code, or (viii) take any action for the purpose of effecting any of the foregoing; or

(d) A proceeding or case shall be commenced, without the application or consent of the City, in any court of competent jurisdiction, seeking (i) the liquidation, reorganization, dissolution, winding up or composition or readjustment of debts of the City, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like, of the City, or of all or any substantial part of the City’s assets, or (iii) similar relief in respect of the City under any law relating to bankruptcy, insolvency,

reorganization, winding up or composition, moratorium, repudiation or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of sixty (60) days from commencement of such proceeding or case, or an order for relief against the City shall be entered in an involuntary case under said Federal Bankruptcy Code; or

(e) A debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction is imposed by any Governmental Authority (including the City) on the repayment when due and payable of the principal of or interest on any indebtedness of the City payable from, and secured by, Net System Revenues or any portion thereof; or

(f) Any representation or warranty (i) made by the City in the applicable Reimbursement Agreement or in any other City Document or in any certificate or statement delivered under the applicable Reimbursement Agreement or under any other City Document that is not qualified by the concept of “materiality” shall be incorrect or untrue in any material respect when made or deemed to have been made or delivered or (ii) made by the City in applicable Reimbursement Agreement or in any other City Document or in any certificate or statement delivered under the applicable Reimbursement Agreement or under any other City Document that is qualified by the concept of “materiality” shall be incorrect or untrue in any respect when made or deemed to have been made or delivered; or

(g) The independent certified public accountants retained by the City shall fail or refuse to deliver an opinion, unqualified in scope (other than an opinion qualified as a result of a change in application of generally accepted accounting principles, such change being one with which such accountants concur) with respect to the financial statements of the City; or

(h) (i) Any material provision of the applicable Reimbursement Agreement or any other Commercial Paper Document (other than the applicable Letter of Credit) (1) shall at any time for any reason cease to be valid and binding on the City, the Authority or the Corporation (with respect to those Commercial Paper Documents to which the City, the Authority or the Corporation, as the case may be, is a party), or (2) shall be declared to be null and void, or (ii) the validity or enforceability thereof shall be contested by the City, the Authority or the Corporation (with respect to those Commercial Paper Documents to which the City, the Authority or the Corporation, as the case may be, is a party), or (iii) the City, the Authority or the Corporation (with respect to those Commercial Paper Documents to which the City, the Authority or the Corporation, as the case may be, is a party) shall deny that it has any or further liability or obligation under this Reimbursement Agreement or any of the other Commercial Paper Documents to which it is a party; or

(i) (i) One or more final, non-appealable judgments against the City for the payment of money from System Revenues not covered by insurance (excluding any insured judgment if the insurer has disputed coverage thereof in writing), the operation and result of which, individually or in the aggregate, equal or exceed \$15,000,000 shall remain unpaid as and when due (i.e., if such judgment allows for payment over time), unstayed, undischarged, unbonded or undismissed for a period of forty five (45) days; or (ii) any of the System Revenues shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within sixty (60) calendar days after its issue or levy; or

(j) The occurrence of an “event of default” or an event which, with the passage of time or the giving of notice, or both, would be an “event of default” under the Agreement, if the result is to permit an acceleration of the obligations thereunder; or

(k) The City fails to make any payment with respect to any Parity Obligation, any Permitted Parity Obligations, any Subordinated Obligations or any Subordinated Credit Provider Reimbursement Obligations when due or any other event or condition shall occur which would permit the acceleration of the maturity of any such Parity Obligations, Permitted Parity Obligations, Subordinated Obligation or Subordinated Credit Provider Reimbursement Obligation; or

(l) Any Rating Agency shall have downgraded its Subordinated Obligation Rating for credit related reasons to below “BBB- (or its equivalent) or “Baa3” (or its equivalent), respectively, or suspended or withdrawn its Subordinated Obligation Rating for credit related reasons.

Remedies of Credit Provider upon an Event of Default. Upon the occurrence and continuance of an Event of Default, a Credit Provider may, in its sole discretion, but shall not be obligated to:

(a) Declare the unpaid principal amount of all outstanding Bank Loans and all Unreimbursed Amounts, all interest accrued and unpaid thereon, and all other amounts owing or payable under such Credit Provider’s Reimbursement Agreement or under any other City Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are expressly waived by the City in such Reimbursement Agreement; provided, however, that such acceleration shall occur immediately without any action upon the occurrence of an Event of Default described in paragraph (c) or (d) above; or

(b) Terminate or suspend the authority of the City and the Issuing and Paying Agent to issue any further Commercial Paper Notes and reduce the stated amount of such Credit Provider’s Letter of Credit to an amount equal to the principal amount of Commercial Paper Notes then outstanding supported by such Letter of Credit, plus interest payable thereon at maturity of the Commercial Paper Notes, by delivering to the Issuing and Paying Agent a notice of no issuance; or

(c) Issue a final drawing notice (the effect of which shall be to cause the Termination Date of the Letter of Credit to occur on the 15th day after the date of receipt thereof by the Issuing and Paying Agent); or

(d) Enforce the rights and obligations of the City under the Commercial Paper Documents as if the Credit Provider were a party thereto; or

(e) Exercise any other remedies available at law or in equity.

Upon the exercise by a Credit Provider of any remedy described in clauses (a), (b) or (c) above, the stated amount of the Letter of Credit issued by such Credit Provider shall be immediately and permanently reduced by an amount equal to the amount of each subsequent Drawing. Upon the occurrence and during the continuance of an Event of Default all Payment Obligations shall bear interest at a default rate of interest described in the applicable Reimbursement Agreement.

THE CREDIT PROVIDERS

The investment decision to purchase a Series of Commercial Paper Notes should be made solely on the basis of the creditworthiness of the Credit Provider that will issue the applicable Letter of Credit from which will be paid all such principal of and interest on such Series of Commercial Paper Notes, rather than the City. Prospective investors should not rely on any source other than proceeds of drawings under the applicable Letter of Credit to pay such principal of and interest on such Series of Commercial Paper Notes.

The following information relates to and has been furnished by the respective Credit Provider for inclusion herein. None of the City, the Authority, the Corporation, or any other party has independently verified or assumes any responsibility for such information. The City, the Authority, the Corporation and the Dealers cannot and do not make any representation as to the accuracy or completeness of such information or the absence of material changes in such information subsequent to the date hereof. The delivery of this Offering Memorandum shall not create any implication that there has been no change in the affairs of any of the Credit Providers since the date hereof or that the information contained or referred to in this section is correct as of any time subsequent to the date hereof.

[TO BE UPDATED BEFORE JANUARY 2017 DISTRIBUTION OF OFFERING MEMORANDUM]

Bank of the West

BotW is a regional financial services company chartered in California and headquartered in San Francisco with \$75.7 billion in assets as of December 31, 2015. With community bank roots dating back more than 140 years, BotW operates a network of more than 600 retail, wealth, commercial and business banking offices in 23 states. The bank has 10,464 employees serving the needs of 2.89 million customers.

Through four major business areas – Commercial Banking, Regional Banking, National Finance, and Wealth Management – BotW and its subsidiaries originate commercial, small business and consumer loans and leases, and offers a wide range of banking, insurance, trust and investment solutions for individuals and businesses.

In addition to banking products offered by BotW, investment and insurance services are offered through its subsidiary, BancWest Investment Services, a registered broker/dealer.

BotW is a subsidiary of BNP Paribas, which has a presence in 75 countries with 185,000 employees.

As of the quarter ending June 30, 2016, BotW had total assets of approximately \$80.7 billion and total deposits of \$57.5 billion. BotW reported second quarter 2016 earnings of \$140 million. As of June 30, 2016, the Tier I Risk-Based Capital Ratio was 12.76%; Total Risk-Based Capital Ratio was 13.74%; and Tier I Leverage Ratio 11.31%.

As of the year ending December 31, 2015, BotW had total assets of approximately \$75.7 billion and total deposits of \$54.2 billion. Net income for the year ending December 31, 2015 was \$628 million. As of December 31, 2015, the Tier I Risk-Based Capital Ratio was 13.21%; Total Risk-Based Capital Ratio was 14.25%; and Tier I Leverage Ratio 11.42%.

The principal offices of the Bank are located at 180 Montgomery Street, San Francisco, California, 94104, and its telephone number is (925) 942-8300. The Bank files financial reports with the Federal Deposit Insurance System (“FDIC”) and those reports may be viewed on the FDIC’s web site at: <http://www.fdic.gov>.

Bank of America, N.A.

BofA is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “BofA Corporation”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial,

corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2016, BofA had consolidated assets of \$1.66 trillion, consolidated deposits of \$1.297 trillion and stockholder's equity of \$210.06 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the BofA Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2015, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov> which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the BofA Corporation and BofA is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of BofA delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon St, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE COMMERCIAL PAPER NOTES WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE COMMERCIAL PAPER NOTES WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE COMMERCIAL PAPER NOTES ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE COMMERCIAL PAPER NOTES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the BofA Corporation or BofA since the date of the most recent filings referenced herein, or that the information contained or referred to in this Appendix A is correct as of any time subsequent to the referenced date.

CERTAIN RISK FACTORS

The following risk factors should be considered by potential investors, along with all other information in this Offering Memorandum, in evaluating the risks inherent in the purchase of the Commercial Paper Notes. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Commercial Paper Notes. The order in which this information is presented does not necessarily reflect the relative importance of the various issues. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the liquidity of the Commercial Paper Notes or failure by the City to pay Commercial Paper Note Subordinated Installment Payments. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Expiration of Initial Letters of Credit

The BotW Letter of Credit will expire on _____, 2020 and the BofA Letter of Credit will expire on _____, 2019, each subject to extension or earlier expiration in certain circumstances as described therein. If a Letter of Credit is not extended or an Alternate Subordinated Credit Support Instrument (herein defined) is not obtained by the City, Commercial Paper Notes of such Series cannot be issued with a maturity date less than [two] days prior to the stated expiration or termination date of the applicable Letter of Credit unless the City shall have arranged for an Alternate Subordinated Credit Support Instrument with respect to such Series of Commercial Paper Notes. “Alternate Subordinated Credit Support Instrument” means a policy of insurance, a letter of credit, a standby bond purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit support or liquidity with respect to the payment of principal of and interest on the Commercial Paper Notes when the same become due and payable during the term thereof and is issued in substitution for the Letter of Credit in accordance with, and pursuant to the applicable Reimbursement Agreement. There can be no assurance that the City will be able to obtain an extension of the applicable Letter of Credit or an Alternate Subordinated Credit Support Instrument. Each Credit Provider is under no obligation to extend the applicable Letter of Credit beyond its scheduled expiration.

Credit Provider’s Obligations Unsecured

The ability of a Credit Provider to honor draws upon its Letter of Credit is based solely upon such Credit Provider’s general credit and is not collateralized or otherwise guaranteed by the United States of America or any agency or instrumentality thereof. No provision has been made for replacement of or substitution for a Letter of Credit in the event of any deterioration in the financial condition of such Credit Provider. Neither the Authority nor any of the Credit Providers assume any liability to any purchaser of the Commercial Paper Notes as a result of any deterioration of the financial condition of such Credit Provider. Upon any insolvency of a Credit Provider, any claim by the Trustee against such Credit Provider would be subject to bank receivership proceedings. Further, the market price of the Commercial Paper Notes may be adversely affected by the financial condition of the respective Credit Provider. See “RATINGS” herein.

General Factors Affecting the Credit Providers

Each Credit Provider is subject to regulation and supervision by various regulatory bodies. New regulations could impose restrictions upon the Credit Providers which would restrict their ability to respond to competitive pressures. Various legislative or regulatory changes could dramatically impact the banking industry as a whole and each Credit Provider specifically. The banking industry is highly competitive in many of the markets in which the Credit Providers operate. Such competition directly

impacts the financial performance of the Credit Providers. Any significant increase in such competition could adversely impact each Credit Provider.

Prospective purchasers of the Commercial Paper Notes should evaluate the financial strength of each Credit Provider based upon the information contained and referred to herein under the caption "THE CREDIT PROVIDERS" and other information available upon request from the Credit Providers and should not rely upon any governmental supervision by any regulatory entity.

Limited Obligations of the City

The investment decision to purchase a Series of Commercial Paper Notes should be made solely on the basis of the creditworthiness of the Credit Provider that will issue the applicable Letter of Credit from which will be paid all such principal of and interest on such Series of Commercial Paper Notes, rather than the City. Prospective investors should not rely on any source other than proceeds of drawings under the applicable Letter of Credit to pay such principal of and interest on such Series of Commercial Paper Notes. The ratings assigned to each Series of Commercial Paper Notes are based on the creditworthiness of the Credit Provider that will issue the applicable Letter of Credit. See "RATINGS" herein.

The obligation of the City to pay the Commercial Paper Subordinated Installment Payments securing the Commercial Paper Notes and any related Subordinate Credit Provider Reimbursement Obligations is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net System Revenues payable on a basis that is subordinate to the right of payment by the City of its Outstanding Senior Obligations under the Agreement. The obligation of the City to make the Commercial Paper Subordinated Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The City is obligated under the 2017 Commercial Paper Supplement to make the Commercial Paper Subordinated Installment Payments payable solely from Net System Revenues on a basis that is subordinate to the right of payment by the City of its Outstanding Senior Obligations under the Agreement.

No assurance can be made that Net System Revenues, estimated or otherwise, will be realized by the City in amounts sufficient to pay the Commercial Paper Subordinated Installment Payments. Among other matters, drought, general and local economic conditions, and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net System Revenues realized by the City. In addition, the realization of future Net System Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water to its customers, and the ability of the City to meet its covenant to fix, prescribe, and collect rates and charges for the Water Service in amounts sufficient to timely pay the Commercial Paper Subordinated Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of or interest on the Commercial Paper Notes. The City has covenanted in the Agreement to fix, prescribe, and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (a) Net System Revenues (as defined herein) sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year, or (b) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year. Adjusted Debt Service does not include debt service on Subordinated Obligations, such as the Commercial Paper Subordinated Installment Payments.

Limited Obligation of the Authority

The Commercial Paper Notes are limited obligations of the Authority payable solely from and secured solely by the Subordinated Revenues pledged therefor and amounts on deposit in the Subordinated Bonds Payment Fund established under the Indenture. Funds for the payment of the principal of and the interest on the Commercial Paper Notes are derived solely from the Commercial Paper Subordinated Installment Payments. The Authority has no other source of revenues from which to pay debt service on the Commercial Paper Notes. The Authority has no taxing power.

Subordinate Obligations

The Commercial Paper Notes are limited obligations of the Authority payable solely from and secured by the Commercial Paper Subordinated Installment Payments to be received by the Authority and from the amounts on deposit in certain funds held under the Indenture. The Commercial Paper Subordinated Installment Payments are payable from Net System Revenues on a basis that is subordinate to the right of payment by the City of its Outstanding Senior Obligations under the Agreement. In the event of a default under the Indenture, the Holders of the Senior Obligations have, in certain circumstances, the right to accelerate the entire principal amount of the Senior Obligations. See "Acceleration; Limitations on Remedies" below. In such circumstances, Holders of the Commercial Paper Notes may not receive scheduled payments of principal of and interest on the Commercial Paper Notes until all holders of Senior Obligations have been paid in full. Further, as concerns the Rate Covenant under the Indenture, Adjusted Debt Service does not include debt service on Subordinated Obligations such as the Commercial Paper Subordinated Installment Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE COMMERCIAL PAPER NOTES."

Acceleration; Limitation on Remedies

The Indenture provides that, upon and during the continuance of an Event of Default thereunder, the Trustee may, subject to certain conditions, declare the principal of all Senior Bonds then Outstanding and the interest accrued thereon to be due and payable immediately. There are currently no Senior Bonds Outstanding.

Also, any remedies available to the Holders of the Commercial Paper Notes 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. Further, enforceability of the rights and remedies of the Holders of the Commercial Paper Notes, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, receivership, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles that 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 Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Holders of the Commercial Paper Notes 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. The opinion to be delivered by Bond Counsel, concurrently with the issuance of the Commercial Paper Notes, that the Commercial Paper Notes constitute valid and binding limited obligations of the City and the Indenture constitutes a valid and binding obligation of the City will be subject to such limitations and the various other legal opinions to be

delivered concurrently with the issuance of the Commercial Paper Notes will be similarly qualified. See Appendix B – “FORM OF BOND COUNSEL OPINION.”

If the City fails to comply with its covenants under the 2017 Commercial Paper Supplement to pay the Commercial Paper Subordinated Installment Payments, there can be no assurance of the availability of remedies adequate to protect the interests of the holders of Senior Bonds and, accordingly, the Subordinated Bonds.

NO CONTINUING DISCLOSURE

The offering and sale of the Commercial Paper Notes are exempt from the rules of the United States Securities and Exchange Commission relating to the disclosure of annual financial and operating information and certain material events. Neither the City, the Authority, the Corporation or the Credit Providers are obligated to provide and do not expect to provide any such information.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City and the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Commercial Paper Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Commercial Paper Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City, the Authority and others in connection with the Commercial Paper Notes, and Bond Counsel has assumed compliance by the City and the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Commercial Paper Notes from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the City and the Authority, under existing statutes, interest on the Commercial Paper Notes is exempt from State of California personal income tax.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Commercial Paper Notes. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Commercial Paper Notes, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Commercial Paper Notes in order that interest on the Commercial Paper Notes be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Commercial Paper

Notes, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Commercial Paper Notes to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City and the Authority have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Commercial Paper Notes from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Commercial Paper Notes. It does not purport to address all aspects of Federal taxation that may be relevant to a particular Holder of a Commercial Paper Note. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Commercial Paper Notes.

Prospective Holders of the Commercial Paper Notes should be aware that the Ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Commercial Paper Notes may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Commercial Paper Note (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Commercial Paper Notes of that maturity was sold (excluding sales to Commercial Paper Note houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Commercial Paper Notes is expected to be the initial public offering price set forth on the cover page of the Official Statement. Commercial Paper Bond Counsel further is of the opinion that, for any Commercial Paper Notes having OID (a “Discount Commercial Paper Note”), OID that has accrued and is properly allocable to the Owners of the Discount Commercial Paper Notes under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Commercial Paper Notes.

In general, under Section 1288 of the Code, OID on a Tax-Exempt Discount Commercial Paper Note accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Commercial Paper Note. An owner’s adjusted basis in a Discount Commercial Paper Note is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Commercial Paper Note. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Commercial Paper Note even though there will not be a corresponding cash payment.

Owners of Discount Commercial Paper Notes should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Commercial Paper Notes.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Commercial Paper Notes. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an Holder purchasing a Commercial Paper Note through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Commercial Paper Notes from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the Holder's Federal income tax once the required information is furnished to the Internal Revenue Service.

Proposed Legislation and Other Matters

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Commercial Paper Notes under Federal or state law or otherwise prevent Holders of the Commercial Paper Notes from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Commercial Paper Notes. For example, the budgets proposed by the Obama Administration from time to time have recommended a 28% limitation on certain itemized deductions and other tax benefits, including tax-exempt interest. The net effect of such a proposal, if enacted into law, would be that an Holder of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of Federal income tax with respect to the interest on such tax-exempt bond, regardless of issue date.

Prospective purchasers of the Commercial Paper Notes should consult their own tax advisors regarding the foregoing matters.

MUNICIPAL ADVISOR

Montague DeRose and Associates, LLC has acted as Municipal Advisor to the City in conjunction with the issuance of the Commercial Paper Notes. The Municipal Advisor has assisted the City in preparation of this Offering Memorandum and advised in other matters related to the planning, structuring, pricing, issuance and delivery of the Commercial Paper Notes. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the Commercial Paper Notes.

The Municipal Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Offering Memorandum, or any other information related to the City with respect to the accuracy or completeness of disclosure of such information.

CERTAIN LEGAL MATTERS

Certain legal matters in connection with the authorization and issuance from time to time of the Commercial Paper Notes are subject to the approval of Hawkins Delafield & Wood LLP, Los Angeles, California. Attached to this Offering Memorandum as Appendix B is the form of the opinion of Bond Counsel to be rendered on [Issuance Date] with respect to the Commercial Paper Notes. Certain legal matters relating to the Letters of Credit and the Reimbursement Agreements were passed upon for the Credit Providers by McGuireWoods LLP, Los Angeles, California, Special Counsel to the Credit Providers.

CERTAIN RELATIONSHIPS

BofA, the Credit Provider for the Series B Commercial Paper Notes, will issue the BofA Letter of Credit pursuant to the reimbursement agreement related thereto in support of the payment of the Series B Commercial Paper Notes. Merrill Lynch, Pierce Fenner & Smith Incorporated, one of the Dealers for the Commercial Paper Notes and BofA, the Credit Provider for the Series B Commercial Paper Notes, are both wholly-owned, indirect subsidiaries of Bank of America Corporation. BofA and Merrill Lynch, Pierce Fenner & Smith Incorporated, as one of the Dealers for the Commercial Paper Notes, will have separate responsibilities and duties in connection with the issuance, the sale, and the payment of the Series B Commercial Paper Notes.

RATINGS

Fitch Ratings (“Fitch”) and Moody’s Investors Service, Inc. (“Moody’s”) have assigned their short-term ratings to the Commercial Paper Notes based upon the issuance of the respective Letter of Credit supporting the payment of the principal amount (or face amount) due and payable at the stated maturity of each Series of Commercial Paper Notes and interest accrued or to accrue thereon through the maturity dates thereof by BotW and BofA, respectively. Fitch and Moody’s have assigned the Series A Commercial Paper Notes short-term ratings of “__” and “__,” respectively, and the Series B Commercial Paper Notes short-term ratings of “__” and “__,” respectively. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004 and Moody’s Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Commercial Paper Notes.

ADDITIONAL INFORMATION

This Offering Memorandum contains certain information for quick reference only; it is not a summary of the terms of the Commercial Paper Notes. Information essential to the making of an informed decision with respect to the Commercial Paper Notes may be obtained in the manner described herein. All references to the documents and other materials not purporting to be quoted in full are qualified in their entirety by reference to the complete provisions of the documents and other materials referenced which may be obtained in the manner described herein.

Copies of the Indenture, the Agreement, the Assignment Agreement, the Issuing and Paying Agency Agreement, the Dealer Agreements, each Letter of Credit and each Reimbursement Agreement may be obtained from the Authority at the following address:

Public Facilities Financing Authority of the City of San Diego
c/o City of San Diego
Office of the City Clerk
202 C Street, 2nd Floor
San Diego, California 92101
Phone: (619) 553-4000
Fax: (619) 553-4045

APPENDIX A

FORM OF BOND COUNSEL APPROVING OPINION

APPENDIX A

FORM OF BOND COUNSEL APPROVING OPINION

January __, 2017

Board of Commissioners of the
Public Facilities Financing Authority
of the City of San Diego
San Diego, California

The City of San Diego
San Diego, California

Ladies and Gentlemen:

We have acted as Bond Counsel to The City of San Diego (the “City”) in connection with the issuance and delivery from time to time of the Subordinated Water Revenue Commercial Paper Notes, Series A (the “Series A Commercial Paper Notes”) and the Subordinated Water Revenue Commercial Paper Notes, Series B (the “Series B Commercial Paper Notes” and, together with the Series A Commercial Paper Notes, the “Commercial Paper Notes”) of the Public Facilities Financing Authority of the City of San Diego (the “Authority”) in an aggregate principal amount outstanding at any time of up to \$250,000,000. The Commercial Paper Notes are to be issued and delivered from time to time pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (as heretofore amended and supplemented, the “Agreement”), including as supplemented by the 2017 Commercial Paper Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2017 (the “2017 Commercial Paper Supplement”), by and between the City and the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”), the Assignment Agreement, dated as of January 1, 2017, by and between the Corporation and the Authority, the Indenture, dated as of January 1, 2009 (as heretofore amended and supplemented, the “Indenture”), including as supplemented by the Fifth Supplemental Indenture, dated as of January 1, 2017 (the “Fifth Supplement”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), and the Issuing and Paying Agency Agreement, dated as of January 1, 2017 (the “Issuing and Paying Agency Agreement”), by and between the Authority and U.S. Bank National Association, as the issuing and paying agent (the “Issuing and Paying Agent”). The Commercial Paper Notes may be issued and delivered from time to time as Series A Commercial Paper Notes in an aggregate principal amount outstanding at any time of up to \$75,000,000 or Series B Commercial Paper Notes in an aggregate principal amount outstanding at any time of up to \$175,000,000.

The Commercial Paper Notes to be issued and delivered from time to time as Series A Notes are entitled to the benefit of, and payments made under, the irrevocable direct-pay letter of credit issued by Bank of the West (the “Series A Bank”) on January __, 2017 (the “Series A Letter of Credit”) pursuant to the Reimbursement Agreement, dated as of January 1, 2017 (the “Series A Reimbursement Agreement”), by and between the City and the Series A Bank. The Commercial Paper Notes to be issued and delivered from time to time as Series B Notes are entitled to the benefit of, and payments made under, the irrevocable direct-pay letter of credit issued by Bank of America, N.A. (the “Series B Bank”) on January __, 2017 (the “Series B Letter of Credit” and together with the Series A Letter of Credit, the “Letters of Credit”) pursuant to the Reimbursement Agreement, dated as of January 1, 2017 (the “Series B Reimbursement Agreement” and together with the Series A Reimbursement Agreement, the

“Reimbursement Agreements”), by and between the City and the Series B Bank. All capitalized terms not defined herein shall have the respective meanings ascribed thereto in the Indenture and the Sublease.

In rendering this opinion, we have reviewed the record of the actions taken by the Authority, the Corporation and the City in connection with the issuance and delivery of the Commercial Paper Notes. We have examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such documents, instruments, or corporate records, and have made such investigation of law, as we have considered necessary or appropriate for the purpose of this opinion.

We are of the opinion that:

1. The Commercial Paper Notes, when issued from time to time as provided in the Indenture and the Issuing and Paying Agency Agreement, will constitute the valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture and the Issuing and Paying Agency Agreement.

2. The 2017 Commercial Paper Supplement has been duly executed and delivered by the City and constitutes the valid and binding limited obligation of the City and is enforceable against the City in accordance with their respective terms.

3. The Fifth Supplement has been duly executed and delivered by, and constitutes the valid and binding limited obligation of, the Authority, and, assuming due execution by the other party thereto, is enforceable against the Authority in accordance with its terms. The Indenture creates the valid pledge to secure the payment of the principal of and interest on the Commercial Paper Notes, of the Commercial Paper Notes Subordinated Installment Payments, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Commercial Paper Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Commercial Paper Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Corporation and the City in connection with the Commercial Paper Notes, and we have assumed compliance by the Authority, the Corporation and the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Commercial Paper Notes from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Commercial Paper Notes in order that, for Federal income tax purposes, interest on the Commercial Paper Notes be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the Commercial Paper Notes, restrictions on the investment of proceeds of the Commercial Paper Notes prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Commercial Paper Notes to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date hereof, the Authority and the City will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Authority and the City covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Commercial Paper Notes will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 4 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the Commercial Paper Notes, and (ii) compliance by the Authority and the City with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

5. Under existing statutes, interest on the Commercial Paper Notes is exempt from State of California personal income taxes.

Except as stated in paragraphs 4 and 5 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Commercial Paper Notes or the ownership or disposition thereof. We express no opinion concerning the exclusion of interest from gross income on any Revolving Note. We render our opinion under existing statutes and court decisions as of the date hereof, and we assume no obligation to update, revise or supplement this opinion after the date hereof to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Commercial Paper Notes.

This letter is furnished by us as Bond Counsel and is solely for your benefit and it is not to be used, circulated, quoted, or otherwise referred to for any purposes other than the issuance and delivery of the Commercial Paper Notes and may not be relied upon by any other person or entity without our express written permission, except that references may be made to it in any list of closing documents pertaining to the issuance and delivery of the Commercial Paper Notes.

The foregoing opinions are qualified to the extent that the rights of the Holders of the Commercial Paper Notes and the enforceability of the Commercial Paper Notes, the Agreement and the Indenture may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law). We express no opinion regarding the availability of equitable remedies.

We express no opinion herein as Bond Counsel regarding the accuracy, adequacy or completeness of the Offering Memorandum relating to the Commercial Paper Notes.

You may rely on this opinion as to any Commercial Paper Notes issued on or after the date hereof to the extent that, at the date of issuance of such Commercial Paper Notes, (i) we have not advised you that this opinion may no longer be relied upon with respect to such Commercial Paper Notes, (ii) there is no change or proposed change in pertinent law, including rulings and interpretations of law by the Internal Revenue Service, from that in effect on the date hereof, (iii) the facts upon which this opinion is based do not change in any way material to this opinion, (iv) the representations, warranties and covenants contained in the Indenture, the Issuing and Paying Agency Agreement, the Agreement, the Tax Certificate and any supplemental tax certificates thereto, and other documents executed and delivered by the Authority and the City in connection with the Commercial Paper Notes and the certificates executed

and delivered by the Authority and the City in connection with the Commercial Paper Notes remain true and correct and the Authority and the City continue to comply with their respective covenants in such documents and certificates, (v) no amendment has been made to the Indenture, the Agreement, the Issuing and Paying Agency Agreement, any of the Letters of Credit or the Reimbursement Agreements or any of the Commercial Paper Notes without our prior written consent, and (vi) no litigation affecting the issuance, legality, validity or enforceability in accordance with their respective terms of, or the exemption from federal income taxation of interest on, the Commercial Paper Notes is pending or threatened at the time of delivery of any such Commercial Paper Notes. We undertake no obligation to determine, at any time, whether the conditions described in this paragraph have been met.

Very truly yours,

APPENDIX B
BOOK-ENTRY ONLY SYSTEM

APPENDIX B

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix C concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC, and City, the Authority, the Corporation, the Trustee, the Issuing and Paying Agent, the Dealers and the Credit Providers take no responsibility for the completeness or accuracy thereof. The City, the Authority, the Corporation, the Trustee, the Issuing and Paying Agent, the Dealers and the Credit Providers cannot and do not give any assurances 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 Commercial Paper Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Commercial Paper Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Commercial Paper Notes, or that they will do so on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Offering Memorandum. 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, New York, NY, will act as securities depository for the Commercial Paper Notes (the “Commercial Paper Notes”). The Commercial Paper Notes 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 certificate will be issued for each maturity of the Commercial Paper Notes, each in the aggregate principal amount of such maturity of such issue, and will be deposited with DTC.

2. DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on this website is not incorporated herein by reference.

3. Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Commercial Paper Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“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 Commercial Paper Notes 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 Notes, except in the event that use of the book-entry system for the Commercial Paper Notes is discontinued.

4. To facilitate subsequent transfers, all Notes 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 Notes 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 Commercial Paper Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Commercial Paper Notes, such as redemptions, tenders, defaults, and proposed amendments to the Commercial Paper Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Commercial Paper Notes 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. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City, the Authority, the Trustee or the Issuing and Paying Agent 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

7. Proceeds, distributions, and other payments on the Commercial Paper Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, the Authority, the Trustee or the Issuing and Paying 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, the City, the Authority, the Trustee, the Issuing and Paying Agent or its agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and other payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, the Authority, the Trustee or the Issuing and Paying 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.

8. If applicable, a Beneficial Owner shall give notice to elect to have its Commercial Paper Notes purchased or tendered, through its Participant, to the City's, the Authority's, the Trustee's or the Issuing and Paying Agent's designated agent, and shall effect delivery of such Notes by causing the Direct Participant to transfer the Participant's interest in the Commercial Paper Notes, on DTC's records, to the City's, the Authority's, the Trustee's or the Issuing and Paying Agent's designated agent. The requirement for physical delivery of Commercial Paper Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Commercial Paper Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Commercial Paper Notes to the DTC account of the City's, the Trustee's or the Issuing and Paying Agent's designated agent.

9. DTC may discontinue providing services as depository with respect to the Commercial Paper Notes at any time by giving reasonable notice to the Authority or the Issuing and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Commercial Paper Note certificates are required to be printed and delivered.

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

COMMITTEE ACTION SHEET

COUNCIL DOCKET OF _____

Supplemental Adoption Consent Unanimous Consent

R -

O -

Authorization for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes Program

Reviewed Initiated By B&GE On 11/16/16 Item No. 7

RECOMMENDATION TO:

Motion by Councilmember Cate to recommend Council adopt the resolution. Second by Councilmember Cole.

VOTED YEA: Sherman, Cole, Cate

VOTED NAY:

NOT PRESENT: Gloria,

CITY CLERK: Please reference the following reports on the City Council Docket:

REPORT TO THE CITY COUNCIL NO.

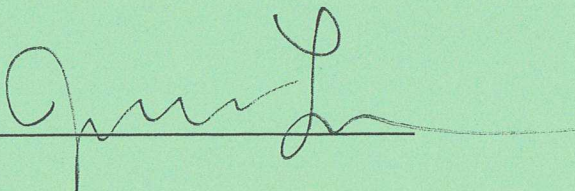
INDEPENDENT BUDGET ANALYST NO.

COUNCIL COMMITTEE CONSULTANT ANALYSIS NO.

OTHER:

[Empty box for other information]

COUNCIL COMMITTEE CONSULTANT




**Office of
The City Attorney
City of San Diego**

MEMORANDUM

(619) 236-6220

DATE: November 30, 2016

TO: Council President and City Councilmembers

FROM: Brant C. Will, Deputy City Attorney 

SUBJECT: Disclosure Responsibilities under Federal Securities Laws – Public Facilities Financing Authority Subordinated Water Revenue Commercial Paper Notes

A. Introduction

On December 6, 2016, the City Council will consider the adoption of a resolution to approve the legal documents necessary to establish the Public Facilities Financing Authority Subordinated Water Revenue Commercial Paper Notes (Notes) program. Resolution R-2017-285(Resolution) includes authorization of the form and distribution of an Offering Memorandum (OM) that will be used to market the Notes to investors. The Water Commercial Paper Notes Program (Program) is described in detail in Report to the Budget and Government Efficiency Committee No. 16-090, dated November 4, 2016 and Report to City Council No. 16-104, dated November 18, 2016.

The Notes are short-term debt obligations issued by the Public Facilities Financing Authority (Authority) and secured by and repaid from Letters of Credit (LOCs) with banks, known as Credit Providers, who are legally committed to repay Notes as they come due. The Credit Providers are expected to be immediately reimbursed with the proceeds from the issuance of new Notes. The Notes are ultimately secured by payments made by the City to the Facilities and Equipment Leasing Corporation (Corporation) under a Master Installment Purchase Agreement. The Corporation then assigns the payments received from the City to the Authority which may use the payments to repay the Notes. The expectation is that the Notes will be “rolled over”, meaning that new Notes will be issued and outstanding Notes repaid, until such time as the Notes are taken out with the issuance of long term bonds.

The Notes differ from the long term Water Revenue Bonds the City Council has approved in the past in that investors in the Notes will look to the Credit Providers as the source of repayment for the Notes. Consequently, the OM contains significantly less financial information regarding the City and the Water Utility. The OM does contain information

regarding the Credit Providers. This information is supplied by the Credit Providers and none of the City, the Authority, or the Corporation are responsible for such information.

The Resolution authorizes the issuance of Notes in an amount not to exceed \$250,000,000. This amount may be issued over time and in any number of series or subseries depending on the cash needs of the Water System. Defined terms not otherwise defined in this Memorandum have the meanings set forth in the OM. This Memorandum provides guidance with respect to your disclosure responsibilities under the federal securities laws for the issuance of the Notes.

The principal of and interest on the Notes are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues but are secured by and payable solely from the Revenues of the Authority and amounts on deposit in certain funds and accounts established under the Indenture.

B. Disclosure Responsibilities

As a Councilmember, you have significant responsibilities imposed upon you by the federal securities laws. The City has taken a number of specific actions to assist you in meeting those responsibilities. The City Council has adopted a comprehensive Disclosure Ordinance (Municipal Code §22.4101 et seq.), established a Disclosure Practices Working Group (DPWG), and has had the benefit of guidance from the City Attorney's Office and the City's outside general Disclosure Counsel, John McNally. You should also bring to bear the disclosure training you received from Mr. McNally, the City Attorney's Office and Debt Management as you consider the Offering Memorandum before you.

Federal Securities Law

A memorandum dated July 9, 2008, to the City Council from Deputy City Attorney Brant Will and John McNally, entitled "Federal Securities Law Responsibilities regarding Review of Disclosure Documents," (copy attached), set forth a consensus recommendation for the Council's review of Preliminary and final Official Statements. The Memorandum quoted from the SEC's Orange County 21(a) Report (1996), characterized such report as "the principal authoritative guidance regarding a Council member's review" of Official Statements, and concluded that Council members should "review and approve Official Statements [relating to] the City's . . . financings." We commend that Memorandum to your attention once again.

Outlined below are the key features of the process that the City has implemented for review and approval of the Offering Memorandum for the Notes. Certifications required by the Disclosure Controls and Procedures are attached to this Memorandum. Please note that due to the different content of the Offering Memorandum in comparison to a Preliminary Official Statement, there are significantly fewer certifications. The list below denotes certifications that are not applicable to the Offering Memorandum as "NA". We have also set forth certain questions that you should ask yourself as you consider the approval of the Offering Memorandum.

Ordinance (O-19320, as amended)

| | <u>Completed</u> |
|--|------------------|
| • Mayor provides written certification to City Council regarding no material mistakes or omissions (Municipal Code § 22.4112(a)) | ✓ |
| • City Attorney provides written certification to City Council regarding no material mistakes or omissions (Municipal Code § 22.4112(a)) | ✓ |
| • CFO provides certification to City Council regarding portions of CAFR in OS (Municipal Code § 22.4112(b)) | NA |

Disclosure Controls and Procedures

| | |
|---|----|
| • Director of Debt Management certifies to DPWG that Disclosure Controls and Procedures were followed by Financing Group in preparation of OS (section 4.3 B.) | ✓ |
| • Debt Manager, together with Deputy City Attorney for Finance, shall maintain a log of OS reviewers/preparers (section 4.3.B.2.) | ✓ |
| • Directors or other responsible staff members of certain City departments shall provide certification to DPWG regarding portions of OS reviewed in form attached to Controls and Procedures as Ex. D | NA |
| • SDCERS shall provide a certification regarding portions of the OS relating to pension matters (section 4.3.D) | NA |
| • City Attorney’s Office provides certification to DPWG regarding litigation in form attached as Ex. E (section 4.3. D) | NA |
| • CFO provides certification to DPWG in form attached as Ex. F (section 4.3.E) | NA |
| • DPWG transmits OS to Mayor and City Attorney using letter in form attached as Ex. H (section 5.3) | ✓ |
| • CFO provides certification to City Council in form attached as Ex. J (section 5.4) | NA |
| • DPWG transmits OS to City Council (section 5.5) | ✓ |

Kroll Report

| | |
|--|---|
| • “City Council [should] have at least two weeks to review substantially completed drafts of a preliminary offering statement before it is asked to vote to approve the final document.” | ✓ |
|--|---|

Your due diligence and disclosure obligations are significant relative to the issuance of the Notes. As a preliminary matter, each Councilmember should determine whether he or she has

a business relationship with any participant connected with this financing (see Report No. 16-104 for a list of participants). It is the position of the Securities and Exchange Commission that the existence of financial and business relationships or arrangements, including political contributions, could indicate the existence of actual or potential conflicts of interest, breaches of duty, or less than arms' length transactions. If there are any such relationships or arrangements these should be discussed with the City Attorney.

Each Councilmember should also consider if he or she has any material information of which the financing team may not be aware. If there is any such information, you should bring such information to the attention of City staff and the appropriate financing professionals. Finally, each Councilmember must develop for himself or herself a basis of knowledge, at a minimum, to answer the following questions (these questions are intended solely as a guide, and you are free to make any other enquiries that you deem relevant):

1. ***For what purpose are the Notes being issued?*** The Notes will be issued to provide as-needed funding to support the Water System's Capital Improvement Program. See Report No. 16-0090 p. 2 and the OM, p. 2.
2. ***What is the term and source of repayment of the Notes? Is there any City general fund exposure?*** The term of an individual series or subseries of Notes is less than 270 day. The Notes mature and are redeemed. The Notes are limited obligations of the Authority and are payable solely from and secured by advances made under the applicable Letter of Credit, the proceeds from the sale of new Notes and, if the foregoing is insufficient, the Subordinated Revenues of the Water System received by the Authority and pledged to the repayment of the Notes. OM, p. 5.
The Notes do not constitute a debt or liability of the Authority, the City or the State and neither the faith nor credit of the Authority, the City or the State are pledged to the payment of the principal of or interest on, the Notes. OM, p. 5.
3. ***What are the types of risks that could cause the source of repayment to be insufficient to repay the Notes?*** OM, pp. 25-28.
4. ***What rights do Note holders have in the event of a default on the Notes?*** See the OM under the heading of "Acceleration; Limitations on Remedies," pp. 27-28.
5. ***What is the legal structure of the transaction?*** See Report No. 16-104 pp. 2-3.
6. ***What limitations are contained in the authorization for the Notes?*** See Report No. 16-090 and, generally, section 3 of the Resolution.
7. ***Are the Notes considered debt for the purposes of the State Constitution or the City Charter?*** No. The Water Utility Fund is a "special fund" comprised of revenues that do not constitute revenues that would otherwise be paid into the City's General Fund. As such, the Notes will not constitute debt that requires voter approval under either the City Charter or the California Constitution.

8. ***Will the Notes be issued on a tax-exempt basis?*** Yes, the Notes will be issued on a tax-exempt basis. Bond Counsel will deliver an opinion at closing concluding that under existing statutes and court decisions and assuming continuing compliance with certain tax covenants, interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986. See the OM, pp. 28-29.
9. ***Are there any disclosures you expected to see in the Offering Memorandum that were not included?*** If so, please ask for an explanation of any omissions.

Developments Subsequent to Approval of the Resolution: Assuming the City Council determines to adopt the Resolution approving the form of the Offering Memorandum and authorizing the form and distribution of the Offering Memorandum for the Notes, the City Council should ensure that any material information obtained after the approval of the Resolution, but prior to the issuance of the Notes, is provided to the financing team. It is expected that the OM will be delivered to investors and the Notes closed in January 2017. If members of the City Council become aware of information that could have a material bearing on the transaction, they have the responsibility to share such information with the finance team. Any revisions to the form of the OM as presented at this meeting will be reviewed by DPWG and provided to Council before printing and distribution to investors.

If you have any questions regarding this Memorandum please feel free to contact Deputy City Attorney Brant Will at (619) 236-6220.

BCW:jdf
Doc.No.: 1396837

cc: Kevin Faulconer, Mayor
Jan Goldsmith, City Attorney
Scott Chadwick, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Lakshmi Kommi, Director of Debt Management
Andrea Tevlin, Independent Budget Analyst
John McNally, Hawkins Delafield & Wood LLP, Outside Disclosure Counsel

Attachment to Disclosure Responsibilities under Federal Securities Laws – Public Facilities
Financing Authority Subordinate Water Revenue Commercial Paper Notes – Reference
Materials

Federal Securities Law Responsibilities regarding Review of Disclosure Documents, July 9,
2008

MEMORANDUM

July 9, 2008

To: City Council

From: Brant C. Will *BCW*
Deputy City Attorney, Finance and Disclosure Unit

John M. McNally *JMM*
Hawkins Delafield & Wood LLP (outside Disclosure Counsel)

Re: Federal Securities Law Responsibilities re Review of Disclosure Documents

This memorandum is intended to provide guidance to City Council members regarding their responsibilities under the federal securities laws to review disclosure documents. In particular, this memorandum identifies determinations for the Council to make to ensure it is complying with such responsibilities, including determinations as to which responsibilities it wishes to undertake directly and which responsibilities it wishes to delegate to management (i.e., the COO, CFO, financial staff), in coordination with the office of the City Attorney, operating through the Disclosure Practices Working Group ("DPWG"). For purposes of this memorandum, the term "disclosure document" means any document reasonably likely to reach investors or the trading markets and thus includes, among other documents, official statements, financial statements, continuing disclosure reports, rating agency presentation material and other discrete communications to which a reasonable investor could attach significance. (see § 22.4107(a)(1) of the Municipal Code).

The current state of the law, relying principally upon the SEC's Orange County Report¹ and the Disclosure Ordinance², was analyzed in two prior memoranda³ that were provided to City Council members. Rather than again providing a detailed analysis of the principal legal sources, this memorandum reflects our considered judgment of your responsibilities, taking into account the SEC's interpretive releases and enforcement actions, the

¹ SEC Rel. No. 34-36761 (Jan. 24, 1996), "Report of investigation in the matter of County of Orange, California as it relates to the conduct of the members of the Board of Supervisors."

² Ordinance O-19320 (Oct. 11, 2004), as amended by Ordinances O-19612 (May 2, 2007) and O-19717 (Feb. 19, 2008).

³ Memorandum from Mark D. Blake to Councilmember Frye, dated April 14, 2008, "Council responsibilities under federal securities laws for Rating Agency Material," and Memorandum from John M. McNally to City Council, dated May 14, 2007, "Federal Securities Law Responsibilities re Review of 2003 CAFR." See also letter from Bryan Cave LLP to Les Girard, dated Oct. 29, 2001, "Re: Review of Disclosure Documents as to Lease Revenue Bonds 2001".

Disclosure Ordinance, and all other relevant sources and guidelines, tempered by the practicalities of establishing an efficient process that does not impede the day-to-day operation of the City.

The principal authoritative guidance regarding a Council member's review of disclosure documents is the SEC's Orange County 21(a) Report (1996). The purpose of the Report was framed by the SEC as follows:

The Commission is issuing this Report to emphasize the responsibilities under the federal securities laws of local government officials who authorize the issuance of municipal securities and related disclosure documents and *the critical roles such officials play* with respect to the representations contained in the Official Statements for those securities. . . . When, for example, a public official has knowledge of facts bringing into question the issuer's ability to repay the securities, it is reckless for that official to approve disclosure to investors without taking steps appropriate under the circumstances to prevent the dissemination of materially false or misleading information regarding those facts . . . *such steps could have included becoming familiar with the disclosure documents and questioning the issuer's officials, employees or other agents about the disclosure of those facts.* (emphasis added)

The SEC staff has advised, in interpreting the Orange County Report, that members of legislative bodies may delegate certain disclosure responsibilities, but are still obligated to exercise "reasonable attention to providing accurate disclosure":

• Their responsibilities [members of legislative body approving disclosure documents], however, do include some reasonable attention to providing accurate disclosure to the investors who buy their bonds and notes.

May public officials reasonably rely on lawyers, financial advisors, underwriters and governmental employees? Absolutely - just as officials of public companies do. That reliance however -- must be reasonable.⁴

⁴ Remarks of William R. McLucas, Director, Division of Enforcement, SEC, before the Government Finance Officers Association, addressing the Orange County Report (Jan. 30, 1996).

The Disclosure Ordinance was written with the intent of ensuring full and accurate disclosure *by the City*:

- “new disclosure controls and procedures . . . to ensure [A] the accuracy of *the City’s* disclosures and [B] *the City’s* compliance with all applicable federal and state securities laws” § 22.4105(a)
- “Such disclosure controls and procedures shall address the accuracy of information *disclosed by the City* in connection with securities issued by the related entities.” § 22.4105(b)
- “Disclosure Practices Working Group shall be responsible for . . . reviewing the form and content of all of the City’s documents and materials prepared, issued, or distributed in connection with the City’s disclosure obligations *relating to its securities.*” § 22.4107(a)(1)

In the course of last few years, as the Disclosure Ordinance and the related Controls and Procedures have been implemented, the DPWG, in addition to its primary role to protect the City, has been directed by Council to expand the scope of the documents subject to its review to include those related entities for which Council members serve as directors (e.g., the Housing Authority) or for which Council acts as the legislative body (e.g., Redevelopment Agency or Community Facilities Districts). This memorandum is intended to be responsive to such direction.

In considering the appropriate manner of review for the disclosure documents referenced in Appendix A as part of fulfilling Council’s responsibilities, each Council member should ask himself or herself the following questions:⁵

1. Am I satisfied that the processes followed [assuming compliance with the Disclosure Ordinance and the related Controls and Procedures] in preparing the disclosure document have been reasonably designed to produce accurate and reliable information?
2. Do I have a reasonable basis to have confidence in the integrity and competence of the members of the DPWG (e.g., management, the City Attorney’s disclosure attorneys, and outside disclosure counsel)?

⁵ Adopted from the advice provided by the Independent Consultant to the Audit Committee members regarding their responsibilities in reviewing CAFRs.

3. Do I know anything that would cause me to question the accuracy of the disclosures or that would indicate that there is a risk that those disclosures may be misleading?
4. With reference to the disclosure documents, do I know of any potentially material issues or “red flags” that should be brought to the attention of management or the DPWG or for which I would like a further explanation (that is, is there information of which I have actual knowledge that would lead me to believe that the disclosure document contains materially misleading information)?

As summarized in the attached chart (Appendix A), we are recommending that Council members, *acting in their capacity as Council members*, undertake the following responsibilities: (a) review and approve Official Statements backed by the City’s General Fund and Water and Wastewater backed financings, and (b) receive and file the CAFR, upon completion of the audit and transmittal by the Audit Committee (as was done for the 2003-2006 CAFRs). The Council should consider what role is appropriate for it to play regarding review and approval of (1) Rule 15c2-12 annual filings, (2) rating agency presentations, and (3) postings on the City’s investor information webpage. The Council may determine to delegate the responsibility to review and approve such documents to the DPWG, but such delegation is only proper if a Councilmember has answered “yes” to questions 1 and 2 above, and “no” to questions 3 and 4. Any different answer would require the Councilmember to reconsider the process that should be followed, including his or her own role in the process.

Pursuant to continuing disclosure agreements the City has executed in accordance with Rule 15c2-12, the City is responsible for filing annual reports for 26 distinct bond financings, resulting in 13 filings each calendar year. The large number of such financings makes it difficult to have both the DPWG and the Council review such documents. More importantly, the content of such filings is largely derived from audited financial statements which, in addition to review by DPWG, are also reviewed by the Audit Committee and Council.

In addition to the financial statements of the City, there are financial statements of blended component units and discretely presented component units. The two discretely presented component units, the Convention Center Corporation and the Housing Commission, have stand-alone financial statements. The blended component units are included within the City’ financial statements, although two of such units, RDA and SDCERS, have stand-alone financial statements. The Council also should decide the extent to which it may wish to review, or delegate to the DPWG the review of, any such financial statements. In general, such statements are setting forth financial information that is operational in nature and which may not be material to investors in either the City’s securities or the securities of any such units. On the other hand, the Council, *not acting as the Council but acting in the other capacities listed in Appendix A*, receives and files the financial statements of SDHC and RDA. As a result, the Council may determine that it wants such financial statements reviewed by DPWG. If that were to occur, DPWG would need the appropriate personnel of SDHC and RDA to assist in any such review. In addition, in light of the additional burden such reviews could impose upon the DPWG when it is reviewing other City disclosures, the DPWG may properly determine to delegate

review of the SDHC and RDA financial statements to certain of its members, working together with appropriate personnel of such entities.

Should you have a concern about a disclosure issue at any time, your best course of action is to communicate such concern in writing to an appropriate representative of management, with a copy to the City Attorney and outside disclosure counsel. In this way, you can discharge your responsibilities under the federal securities laws, and best assure that steps will be taken to incorporate such information into the City's disclosure material.

This memorandum has been reviewed by, and received the concurrence of, both the City Attorney and the Independent Consultant.

| | Approved by <u>DPWG</u> | Approved by <u>City Council</u> |
|---|----------------------------|------------------------------------|
| Official Statements | | |
| General Fund Securities | ✓ | ✓ |
| Water/Wastewater | ✓ | ✓ |
| Housing Authority | ✓ | ✓ ¹ |
| Tobacco Corporation | ✓ | Not Required ² |
| Redevelopment Agency | ✓ | ✓ ³ |
| CFDs/Assessment Districts | ✓ | ✓ ⁴ |
| City's Financial Statements (CAFRs) | ✓ | ✓ ⁵ |
| Stand-alone Financial Statements | | |
| Discretely Presented Component Units | | |
| SDCCC | No | Not Required |
| SDHC | TBD | Yes ⁶ |
| Blended Component Units | | |
| RDA | TBD | Yes ⁷ |
| SDCERS | No | Not Required |
| 15c2-12 Annual Filings | ✓ | Not Required |
| Rating Agency Presentations | ✓ | Not Required |
| Postings on Investor Information Webpage | ✓ | Not Required |
| Press releases and other misc. materials not posted on Investor Information Webpage | No | No |

¹ Council acting as the Housing Authority.

² By ordinance, the Council "acknowledged" the "execution and delivery by the [Tobacco] Corporation" of the Corporation's Official Statement.

³ Council acting as the legislative body of the Redevelopment Agency.

⁴ Council acting as the legislative body of the Community Facilities Districts.

⁵ "Received and filed."

⁶ City Council, acting in its capacity as the Housing Authority, approves the financial statements of SDHC.

⁷ City Council serves as the governing board of the RDA.

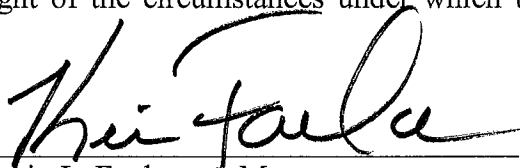
Attachment to Disclosure Responsibilities under Federal Securities Laws – Public Facilities
Financing Authority Subordinate Water Revenue Commercial Paper Notes – Certifications

1. Certification of Mayor to City Council
2. Certification of City Attorney to City Council
3. Transmittal from DPWG to City Council
4. Certification of Debt Management Director to DPWG
5. Transmittal from Financing Group to DPWG

CERTIFICATION TO CITY COUNCIL OF THE OFFERING MEMORANDUM FOR THE
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS SECURED
BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)

City Council:

I have reviewed the Offering Memorandum with respect to the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (Disclosure Document), and I have met with and asked questions of the Financing Group, the Disclosure Group, any Contributor, any other person who reviewed or drafted any section of the Disclosure Document, and any other person that I thought necessary or appropriate. I hereby certify that, to the best of my knowledge, the Disclosure Document does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.



Kevin L. Faulconer, Mayor

11/29/16
Date

**Office of
The City Attorney
City of San Diego**

DATE: November 29, 2016

TO: Council President and Members of the City Council

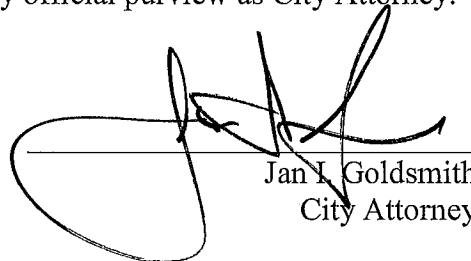
FROM: Jan I. Goldsmith, City Attorney

SUBJECT: Certification Regarding Offering Memorandum with respect to the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)

I hereby certify to the City Council, pursuant to Municipal Code §22.4112(a), to the best of my knowledge as of the date set forth above, the Offering Memorandum with respect to the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (Disclosure Document) does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

This certification is made subject to the following understandings:

1. I have not participated in any meetings of the Disclosure Practices Working Group (DPWG) at which the Disclosure Document was considered.
2. My certification is provided in reliance on the accuracy and veracity of various certifications provided by City staff to DPWG regarding the information included in the Disclosure Document and the procedures followed in its preparation.
3. I have reviewed the Disclosure Ordinance (O-19320, as amended), the DPWG Disclosure Controls and Procedures, and the memorandum to the City Council regarding the Council's disclosure responsibilities under Federal securities law (Council Memorandum). My certification is provided in reliance on the understanding that the steps outlined in the Council Memorandum were completed as set forth therein.
4. This certification only covers those matters within my official purview as City Attorney.



Jan I. Goldsmith
City Attorney

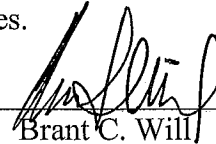
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TRANSMITTAL OF OFFERING MEMORANDUM
RELATED TO THE ISSUANCE OF
THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SUBORDINATED WATER REVENUE COMMERCIAL PAPER NOTES
(PAYABLE SOLELY FROM SUBORDINATED INSTALLMENT PAYMENTS SECURED
BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)

City Council:

The Disclosure Practices Working Group (DPWG) has reviewed the Offering Memorandum with respect to the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), including the draft that was provided to the City Council for docketing at the December 6, 2016 meeting of the City Council (Disclosure Document). The Disclosure Document was reviewed in accordance with the procedures set forth in Section 5.2 of the Disclosure Controls and Procedures. In the best judgment of the members of DPWG, to their individual knowledge, the Disclosure Document, was in substantially final form, subject to any additional revisions by DPWG, and DPWG has complied with the Disclosure Controls and Procedures.

Dated: 11/28/16



Brant C. Will
Deputy City Attorney
Disclosure Coordinator

DPWG:

Scott Chadwick, Chief Operating Officer

Mary Lewis, Chief Financial Officer

Lakshmi Kommi, Director of Debt Management

Walter Chung, Deputy City Attorney

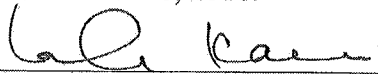
John McNally, Hawkins Delafield & Wood LLP, Outside Disclosure Counsel

**Certification by Director of Debt Management to
Disclosure Practices Working Group**

DPWG:

To the best of my knowledge, the Disclosure Controls and Procedures were followed in the preparation of the Offering Memorandum for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (Disclosure Document) that will be considered by the City Council at the Council meeting of either December 6, 2016.

Dated: 11/23/2016



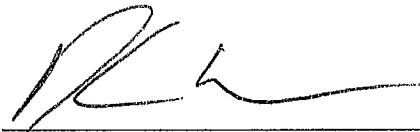
Lakshmi Kommi,
Director of Debt Management

**Transmittal of Offering Memorandum by Financing Group to
Disclosure Practices Working Group**

DPWG:

The Financing Group has, with respect to the Offering Memorandum relating to the issuance of the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (Disclosure Document), to the best of the individual knowledge of its members: (i) performed the responsibilities set forth in subsection B of Section 4.3 of the Disclosure Controls and Procedures; and (ii) in the best judgment of the individual members of the Financing Group and in reliance on the information provided by the City departments listed in the Contributor Log, the Disclosure Document was in substantially final form when it was submitted for review to the Disclosure Practices Working Group, with information to be updated as indicated in the Disclosure Document or as otherwise required.

Dated: 11/28/16



Kevin Werner, on behalf of the Financing Group
Title: Debt Coordinator, Debt Management
Department

Arto Becker, Hawkins Delafield & Wood (Transaction Counsel)
Brant C. Will, Deputy City Attorney, City Attorney's Office
Kevin Werner, Debt Coordinator, Debt Management
Allison Falkenstein, Associate Debt Coordinator, Debt Management
Seth Gates, Deputy Director, Public Utilities Department